JAN 5 1981 Item 1016 Y4.G74/7:S+3

STEEL IMPORTS AND THE ADMINISTRATION OF THE ANTIDUMPING LAWS 1998

68-805 654 124 K

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

609461

DECEMBER 20, 1979

Printed for the use of the Committee on Government Operations

U.S. GOVERNMENT PRINTING OFFICE
68-805 O WASHINGTON : 1980

COMMITTEE ON GOVERNMENT OPERATIONS

JACK BROOKS, Texas, *Chairman*

L. H. FOUNTAIN, North Carolina
DANTE B. FASCELL, Florida
WILLIAM S. MOORHEAD, Pennsylvania
BENJAMIN S. ROSENTHAL, New York
FERNAND J. ST GERMAIN, Rhode Island
DON FUQUA, Florida
JOHN CONYERS, JR., Michigan
CARDISS COLLINS, Illinois
JOHN L. BURTON, California
RICHARDSON PREYER, North Carolina
ROBERT F. DRINAN, Massachusetts
GLENN ENGLISH, Oklahoma
ELLIOTT H. LEVITAS, Georgia
DAVID W. EVANS, Indiana
TOBY MOFFETT, Connecticut
ANDREW MAGUIRE, New Jersey
LES ASPIN, Wisconsin
HENRY A. WAXMAN, California
FLOYD J. FITHIAN, Indiana
PETER H. KOSTMAYER, Pennsylvania
TED WEISS, New York
MIKE SYNAR, Oklahoma
ROBERT T. MATSUI, California
EUGENE V. ATKINSON, Pennsylvania

FRANK HORTON, New York
JOHN N. ERLENBORN, Illinois
JOHN W. WYDLER, New York
CLARENCE J. BROWN, Ohio
PAUL N. McCLOSKEY, JR., California
THOMAS N. KINDNESS, Ohio
ROBERT S. WALKER, Pennsylvania
ARLAN STANGELAND, Minnesota
M. CALDWELL BUTLER, Virginia
LYLE WILLIAMS, Ohio
JIM JEFFRIES, Kansas
OLYMPIA J. SNOWE, Maine
WAYNE GRISHAM, California
JOEL DECKARD, Indiana

WILLIAM M. JONES, *General Counsel*
JOHN E. MOORE, *Staff Administrator*
ELMER W. HENDERSON, *Senior Counsel*
JOHN M. DUNCAN, *Minority Staff Director*

COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE

BENJAMIN S. ROSENTHAL, New York, *Chairman*

ROBERT T. MATSUI, California
EUGENE V. ATKINSON, Pennsylvania
FERNAND J. ST GERMAIN, Rhode Island
JOHN CONYERS, JR., Michigan
ELLIOTT H. LEVITAS, Georgia

LYLE WILLIAMS, Ohio
JIM JEFFRIES, Kansas
JOEL DECKARD, Indiana

EX OFFICIO

JACK BROOKS, Texas

FRANK HORTON, New York

PETER S. BARASH, *Staff Director*
HERSCHEL F. CLESNER, *Chief Counsel*
DONALD P. TUCKER, *Chief Economist*
STEPHEN R. McSPADDEN, *Counsel*

CONTENTS

Page

Hearing held on December 20, 1979 1

Statement of—

Alcaly, Roger, Senior Economist, Policy, Planning and Evaluation, Council on Wage and Price Stability 37

Anderson, Hon. Glenn M., a Representative in Congress from the State of California 3

Crandall, Robert W., senior fellow, Brookings Institution 16

Fasick, Kenneth, Director, International Division, General Accounting Office; accompanied by Dayna Shaw, Office of the General Counsel; and Margaret Truver, International Division 79

Monnett, Albert A., Jr., vice president and assistant to the chairman of the board, United States Steel Corp.; accompanied by Earl W. Mallick, vice president, public affairs 8

Rosenthal, Hon. Benjamin S., a Representative in Congress from the State of New York, and chairman, Commerce, Consumer, and Monetary Affairs Subcommittee: Opening statement 1

Letters, statements, etc., submitted for the record by—

Alcaly, Roger, Senior Economist, Policy, Planning and Evaluation, Council on Wage and Price Stability: Prepared statement 49–78

Atkinson, Hon. Eugene V., a Representative in Congress from the State of Pennsylvania: December 18, 1979, letter to the Secretary concerning recent plant closings and mass layoffs in the steel industry 6–7

Crandall, Robert W., senior fellow, Brookings Institution: Prepared statement 26–36

Fasick, Kenneth, Director, International Division, General Accounting Office: Prepared statement 85–101

APPENDIX

Comptroller General's report to the Congress entitled: "U.S. Administration of the Antidumping Act of 1921" 103

STEEL IMPORTS AND THE ADMINISTRATION OF THE ANTIDUMPING LAWS

THURSDAY, DECEMBER 20, 1979

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER,
AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, Eugene V. Atkinson, Fernand J. St Germain, John Conyers, Jr., Elliott H. Levitas, and Lyle Williams.

Also present: Peter S. Barash, staff director; Doris Faye Ballard, clerk; and Jack Shaw, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN ROSENTHAL

Mr. ROSENTHAL. The subcommittee will be in order.

Today the Commerce, Consumer, and Monetary Affairs Subcommittee begins hearings into the administration of the antidumping laws as they relate to steel imports; and the impact of those laws and imports on the domestic steel industry and on consumer prices for steel products.

Under the rules of the House, this subcommittee has oversight responsibility for the international trade functions of our Federal agencies, including administration of the Antidumping Act of 1921 by the Treasury Department, the International Trade Commission and soon by the Commerce Department.

Like oil, steel is a basic commodity whose prices have a significant rippling effect throughout our economy. It is important for the Congress to understand what impact the antidumping laws have on the nature and extent of steel imports and how those imports affect U.S. jobs, industry and consumer prices.

In March of this year, the General Accounting Office issued a report entitled, U.S. Administration of the Antidumping Act of 1921. That act provides for assessment of a special duty against import of goods brought into the country at "unfair prices"—prices lower than what is charged to buyers of the same or similar goods in the exports' home market; or prices lower than production costs. The GAO report observed that:

> Although access to dumped goods may benefit consumers and dampen inflationary trends, it may cause the affected domestic industry to lose sales and possibly reduce production and employment.

The General Accounting Office concluded that:

> The long periods of time required to conduct investigations, and delays averaging 3 to 3.5 years in assessing duties after findings of dumping, make it highly improbable that U.S. industry is being adequately protected by the act.

During today's hearing, the subcommittee will hear testimony on the extent to which the antidumping statutes are assisting the domestic steel industry; and how changes in the substance or in the administration of those statutes would affect industry, workers and consumers.

Early in the next session, these hearings will be continued. At that time, witnesses from the administration will be asked to testify and we will hear testimony from the GAO on the conclusions of a new report on the operation of the trigger price mechanism.

Congressman Williams.

Mr. WILLIAMS. Mr. Chairman, first of all I want to thank you for finding the time in a very busy schedule to hold these hearings. The subcommittee fully appreciates that you have been serving with distinction this fall as a delegate to the United Nations General Assembly in New York City. And I know this particular brand of shuttle diplomacy has imposed special burdens on you in terms of meeting your responsibilities here in Washington. We deeply appreciate the efforts on your part which have made these hearings possible.

At the same time, our subcommittee has labored all year under a heavy workload, and under these circumstances, Mr. Chairman, we especially appreciate your providing the subcommittee with this opportunity to consider the array of serious problems which are confronting our domestic steel industry.

Mr. Chairman, the U.S. steel industry continues to face serious problems, particularly in terms of the imports from abroad which have captured a significant share of the domestic steel market.

For nearly 2 years now, the administration has been implementing its trigger pricing mechanism program, which is intended to deter or frustrate the unfair dumping of foreign steel on American shores.

On the basis of our recent experience with TPM, and as we anticipate the shifting of administrative responsibilities for the TPM program from Treasury to Commerce on January 1, it is appropriate that we consider the present status of the steel import problem and the Federal Government's efforts to deal with it. Hopefully, an evaluation at this point in time will assist us in our continuing efforts to develop a constructive national policy for the American steel industry.

It is in this context that I look forward to hearing from our witnesses this morning.

Mr. ROSENTHAL. Our first witness is Congressman Glenn Anderson. Then we will hear from Albert A. Monnett, Jr., vice president and assistant to the chairman, United States Steel.

Congressman Anderson, why don't you begin?

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ANDERSON. Mr. Chairman, before I begin, I would like to take just a moment to thank you for holding these hearings today and to congratulate you on recognizing the need for them.

Several of those speaking here today are concerned, and rightly so, with the effects of the trigger price mechanism—TPM—and foreign dumping, on our domestic steel industry.

Of course, I share that concern.

For some, their interests are particularly focused on the effects of dumping in the eastern and midwestern regions of our country and they should be interested because those sections have certainly been hit hard.

I would like to address the subcommittee today, though, from a little different perspective.

Let me take a west coast perspective because on the west coast some of us feel that there is one peculiarity in the trigger price mechanism that has a unique and negative effect on us.

When the trigger price mechanism was introduced late in 1977, hopes were high throughout the industry that the new device might alleviate the problem of foreign penetration in our domestic steel industry. To be sure, apprehensions were also high, but the industry was willing to give it a go.

Optimism in the West was soon shattered. As I pointed out to then Secretary of the Treasury Blumenthal in a letter dated July 14, 1978, the TPM may have been giving Asian steel producers an incentive to sell some of their product that had previously been going to the East and Midwest, on our west coast instead. And that was in addition to the foreign steel that was already coming our way.

This happened because of the method used in determining the trigger price. The TPM was actually prejudicial against the west coast. The trigger price was set so that any steel imports coming in below the figure would automatically justify dumping investigations by our Government. The figure was based on cost of production in the most efficient foreign nation, plus transportation costs and a reasonable profit.

The difficulty that arose was due to calculations in transportation costs. The fact of the matter is that it costs less to ship a product from Japan to California, than from Japan to New York. The transportation costs calculated into the trigger price mechanism failed to adequately recognize this fact.

Because of this failure, Japanese steelmakers, which are subsidized by their Government to keep their workers on the job—were able to sell their products here in America, and particularly on the west coast. And partially as a result of this, a 650-worker United States Steel plant in Torrance, Calif. will soon be shutting its doors.

Mr. Chairman, southern California is a dynamic growth market. And yet, big steel—big domestic steel—seems to be pulling out. Out West, we will one day be dependent on foreign steel, steel from Japan, Korea, and Australia, unless something is done. And this is because of the skewed TPM which will not allow Western produc-

ers an adequate profit margin permitting them to reinvest and modernize.

In November 1978, the National Commission for Manpower Policy released a report entitled "Trade and Employment." Included was a summary of a paper prepared by Economic Consulting Services, Inc. They studied four domestic industries; our steel industry among them.

Their conclusion was that "* * * the growth in import penetration has been the most important cause of long-term job losses." We are now seeing the evidence of this all over the country, and I am here today to point out how the proposed solution has actually hurt us in the West.

And while I am here, let me complain just for a minute about what I am hearing on trade readjustment assistance. I am hearing that American workers displaced by foreign steel might not get this assistance in some cases because steel imports are reported to be down this year. This is supposed to be proof that it is not the imports that are causing the plants to close.

I would liken this situation to that of a man who had 10 teaspoons of arsenic one day—remarkably survived—and then had 8 teaspoons the next day. Well, the second day, of course, the poor fellow died. The doctors, though, noting that his arsenic intake went down, decided that his death must be from natural causes.

Mr. Chairman, there is nothing natural about the causes of steel shutdowns in Torrance and other Western cities.

We are seeing evidence of unnatural causes in Torrance. We are seeing evidence when Kaiser Steel enters into serious negotiations—now suspended—to sell a large piece of their action to a Japanese manufacturer.

The evidence is all around us. We must respond to protect our domestic industry and the American workers who are being hurt—not necessarily by a superior or more efficiently produced foreign product—but by foreign products heavily subsidized by foreign governments. There is no need for the United States to perpetuate this foreign assistance at the expense of its own workers in the Western States.

I want to thank the gentleman for allowing me to make this presentation.

Mr. ROSENTHAL. Thank you very much for a very significant statement.

Do you have any questions?

Mr. WILLIAMS. No.

Mr. ROSENTHAL. Congressman Levitas.

Congressman Atkinson.

Mr. ATKINSON. Not at this time.

I have a statement.

Mr. ROSENTHAL. Mr. Atkinson.

Mr. ATKINSON. Thank you, Mr. Chairman.

As you have stated, today's hearing is the initial session in a series of hearings on the administration of our antidumping laws, especially as it relates to steel and steel products, and the impact of imports on our domestic steel industry.

Late last month, United States Steel made public its plans for a drastic cutback in domestic steel capacity, with the announcement

that 16 of the company's plants throughout the country would be closed. The resultant shutdown will find over 13,000 steelworkers without jobs. Over 1,200 employees of United States Steel are in the 25th District, which I represent, and over 4,300 are in Congressman Williams' district. The impact on the employees, their families, and the communities in which these plants are located will be devastating.

Understandably, a plant closing may happen periodically in any industry. In the American steel industry, however, such crippling shutdowns of plants are being experienced with much greater frequency.

In 1977, Bethlehem Steel's production cuts cost 8,000 employees their jobs in Ohio, New York, and Pennsylvania; while the closing of Youngstown Sheet & Tube forced another 5,000 workers onto the unemployment rolls.

With each additional steel plant closing, we fall back on the same litany of reasons to explain what happened, rather than realize that these reasons are warning signals telling us that our domestic steel industry is suffering and that its continued viability is seriously being threatened.

These warning signals are problems that confront and confound American steel production. No problem seems to plague and frustrate the steel industry as much as the practice of dumping of foreign steel in the United States. Dumping occurs when foreign products are exported to the United States at prices lower than those of the home market. Such unfairly priced imports played a significant part in the closing of many of United States Steel's plants. It is an insidious process that ensnares domestic markets and contributes to the loss of jobs and a weakening of a healthy industry.

Since 1921, we have had a law to combat this practice of dumping. The Antidumping Act of 1921, which was to be enforced by the Treasury Department and the International Trade Commission, was not a protectionist measure to unduly restrict imports into the United States, but rather a measure to discourage and prevent the unfair price discrimination practices of foreign suppliers.

The act, however, has not deterred the great influx of unfairly priced imports, especially in steel and televisions, which has occurred in the last few years.

In examining the act, hearings by the Trade Subcommittee of the House Ways and Means Committee in the 95th Congress, found it to be largely ineffective in preventing dumping.

A General Accounting Office report of earlier this year, reconfirmed the findings of the Trade Subcommittee, stating that the Antidumping Act of 1921 was costly and burdensome, resulting in long delays before assessments are made. The new trade law, due to take effect on January 1, has addressed some of the principal concerns uncovered in the earlier congressional investigations.

The changes in the act were needed to correct some of its major flaws. But, unless these changes are accompanied by vigorous enforcement practices, then they will become no more than another cruel joke perpetrated on the American public by the bureaucracy.

I do not think that it is too much to demand a strong, aggressive, intensified measure of enforcement of the antidumping provisions

of the trade law. In this regard, I do hope that the Commerce Department, which has been given the authority to administer the trade law, does not intend to follow the poor example of the Treasury Department.

For in the past, the halfhearted, inept administration of the Antidumping Act posed as great a problem as the deficiencies in the act itself. Foreign suppliers knew that with the lax enforcement procedures of the Treasury Department they could go ahead and dump, and not get caught. If dumping was found, duties might never be collected, and then all would be forgiven.

Never did Treasury institute a dumping investigation unless prodded by the injured industry. In the case of steel, when the industry was set to bring forth a large number of petitions to institute dumping investigations, Treasury responded by contriving a new device to stave off these formal requests. This trigger price mechanism would be the way that the Treasury Department could self-initiate dumping investigations of steel products, so the petitions were not necessary.

Clearly, though, many problems exist in the trigger price mechanism, and, in fact, it may be benefiting European steel at the expense of the U.S. industry. Our next hearing in February will more closely examine the trigger price mechanism.

In addition, duties in the notorious TV dumping case, which Treasury assured the House Ways and Means Committee in 1978 would be expeditiously collected, have yet to be collected.

Particularly frustrating to me was the inability to obtain accurate and complete information from the Treasury Department and other sources on the total dollar value of the fines which have been assessed, collected, or remain delinquent.

I was repeatedly told that the Treasury Department does not have this information readily available, but would have to obtain it from the district customs offices. Similar information was requested by the Trade Subcommittee in September 1978, and a similar response was provided by the Treasury Department. They have yet to fully comply with the Trade Subcommittee's request.

Therefore, I have sent a letter to Secretary Miller requesting specific information about dumping complaints and assessments. Mr. Chairman, I ask permission that a copy of this letter be placed in the hearing record.

Mr. ROSENTHAL. Without objection, it is so ordered.

[The letter referred to follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., December 18, 1979.

Hon. WILLIAM G. MILLER,
Secretary, U.S. Department of the Treasury,
Washington, D.C.

DEAR MR. SECRETARY: Recent plant closings and mass layoffs in the steel industry have heightened public concern about adequate enforcement of our anti-dumping statutes. As you know, the House Subcommittee on Commerce, Consumer, and Monetary Affairs is beginning hearings on trade problems affecting the steel industry. Full disclosure of all pertinent dumping data is essential to those hearings and to understanding trade impacts on the steel industry.

I respectfully request the following information from the Department immediately:

1. How many dumping complaints have been filed since 1960?
2. How many complaints have involved steel products?

3. In how many steel and non-steel cases has dumping of foreign products been determined?

4. How many complaints has the Department initiated on its own?

5. In how many steel and non-steel cases have petitions been withdrawn prior to a finding by the Department?

6. Has the Department ever urged private firms or organizations to withdraw dumping complaints?

7. What dollar amount of dumping duties has been assessed on steel and non-steel products since 1960?

8. On what amount of steel and non-steel products has a dumping determination been made but no assessment made since 1960?

9. What amount of dumping duties has been collected since 1960?

10. What amount of dumping duties has been assessed but not collected on steel and non-steel products since 1960?

I appreciate your cooperation in providing this data which is so vital both to Subcommittee hearings and to consideration of further action by those, like you yourself, who are interested in adequate enforcement of trade laws and the impact of trade issues on American jobs.

It is my understanding that similar information was requested by the Subcommittee on Trade during hearings in September of 1978. I am hopeful that the information can be made available immediately.

Thank you for your assistance. Best wishes.

Sincerely,

EUGENE V. ATKINSON,
Member of Congress.

Mr. ATKINSON. I hope that the administration of the antidumping provisions will improve under the Commerce Department's supervision. But already tremors of concern are being felt by Congress. With the new trade law to take effect in less than 2 weeks, and new steel antidumping petitions waiting to be filed, the Commerce Department seems to be in a bit of disarray regarding the administration of the antidumping provisions.

It may be that this subcommittee will need to closely monitor the Commerce Department to insure that it vigorously enforces the antidumping provisions.

In closing, Mr. Chairman, let me add that the United States historically has been the major steel producer in the world. That honor was displaced to the Soviet Union in 1971, ending the 80-year dominance of the American steel industry. In fact, our domestic steel industry has been in decline for nearly 20 years. Where it seems that our steel industry is forced to cut back, other countries vie to make steel production the centerpiece of their economies.

I fear that we are sacrificing the American steel industry, and that by the time we enter the 21st century the United States will not only be at the mercy of the Organization of Petroleum Exporting Countries, but also at the mercy of OSEC, the Organization of Steel Exporting Countries.

It may be, Mr. Chairman, that we will have to carefully examine all the warning signals of our threatened steel industry, not just the dumping problem. Only then would we better be able to begin to insure a healthy and viable domestic steel industry.

Mr. ROSENTHAL. Thank you very much.

Mr. Monnett.

STATEMENT OF ALBERT A. MONNETT, JR., VICE PRESIDENT AND ASSISTANT TO THE CHAIRMAN OF THE BOARD OF DIRECTORS, UNITED STATES STEEL CORP.; ACCOMPANIED BY EARL W. MALLICK, VICE PRESIDENT, PUBLIC AFFAIRS

Mr. MONNETT. Mr. Chairman, my name is Albert A. Monnett, Jr. I am vice president and assistant to the chairman of the board of directors, United States Steel Corp.

With me is Mr. Earl Mallick, who is a vice president of United States Steel.

I appreciate the opportunity to testify before your subcommittee on the important issues you are considering, and will go straight to the subject by answering the four specific questions which you have asked.

What is the present impact of foreign steel imports on the domestic industry?

The answer is seriously damaging. Imports in the first 10 months of this year have totaled 14.3 million product tons, and are likely to be about 17.5 million for 1979 as a whole. While this tonnage is lower than 1978 imports, which were an alltime record of 21 million tons, or 18 percent of the market, it would still account for about 15 percent of apparent steel consumption in the United States this year.

More important, however, is the fact that imports in the last few months—July through October—have been running at an average annual rate approaching 20 million tons—not much below 1978's disastrous level. We see no reason to be optimistic that 1980 imports will show any significant improvement. With recession tightening its grip in Europe and elsewhere, there could be an even stronger desire to dump even more steel into this market—still the only major world steel market that remains genuinely open.

To put this in perspective, please remember a million tons of steel represents a full year's work for 5,000 steelworkers, so an import level of 1.6 to 1.7 million tons a month means some 90,000 to 100,000 American steelworkers are not employed.

Steel imports are also having a disastrous effect on U.S. steel producers in terms of reduced shipments and sales volumes. With lowered volume, production costs rise because of the large element of fixed overhead costs—this further reduces profits and shrinks the cash flow available for proper plant maintenance and modernization.

But imports at the levels we are presently experiencing, and have experienced for many years, do not just hurt steelworkers and steel producers. They hurt the whole American economy.

A study completed last year, for example, showed that for the years 1976 and 1977 alone, the injury to the steel industry and its workers as a result of dumped imports totaled about $4 billion. And even this huge figure takes no account of the lost taxes which might have gone to the U.S. Treasury, or the added unemployment or welfare costs which our economy had to carry.

Most people regard the facts and figures I have just given as proof enough that the present impact of steel imports is seriously harmful to the domestic steel industry and to American society as a whole. But in this process, attention is focused on the import volume for 1 month, one quarter or 1 year.

I am afraid that such sporadic examinations actually obscure the more important, insidious long range impact of imports on our industry and our economy.

To some extent the continued growth in unfairly priced steel imports over the past 20 years is analogous to the so-called Chinese water torture. Any one drop of water doesn't really affect the victim very much—it is the slow, steady drip-by-drip process that eventually drives him out of his mind. And when the end is reached, no one can go back and identify which individual drop of water did the damage.

Thus, it is with imports. Excessive and unfairly priced imports are a major contributor to the involuntary liquidation of the American steel industry which has been underway for some time.

This involuntary liquidation is the consequence of being unable to spend what is needed on plant modernization and appropriate expansion. The industry has been spending—make no mistake—and to the tune of some $3 billion a year. But that is less than half what should be spent if the American steel industry is to remain "world class" in terms of low costs, high productivity and quality, and the ability to serve the U.S. market with the tonnage that is required.

The industry's problem of capital formation is itself long term in nature. And what role do imports play here? Investors look at unfair or disruptive imports not just in terms of the current year or the last year or two, but in terms of the longer range future.

The question they ask is: Is the American market for steel likely to continue for the indefinite future to experience disruption by excessive volumes and predatory pricing, or can we reasonably rely on stability and fair competition guaranteed by our laws?

If the answer is the latter, obviously investors will be disposed to commit new funds to the steel industry.

If the answer is for continuation of the current situation, and if the Government takes no action to improve the other aspects of the capital formation problem which are within its sole responsibility, then obviously our steel industry will continue to hobble along with inadequate capital expenditures. The liquidation process will continue.

Unhappily, while the current import picture is bad, the investor who looks over the record for the last 10 years or more is even more discouraged. In 1966, imports accounted for less than 11 percent of U.S. apparent supply, by last year the share had risen—with one or two ups and downs—to 18 percent, and unless there are some major changes—a subject I will address later—this percentage could even rise further.

Let me summarize at this point the answer to the first question. The present impact of foreign steel imports on the domestic steel industry is seriously damaging; and there is little prospect that this impact will lessen in the future unless major changes in Government policy are made.

Let's go to your second question:

Have the antidumping laws been effective in assisting the domestic steel industry? What actions by Congress or by the Treasury or Commerce Departments could make these laws more effective?

The answer to the first part of this double-barreled question is simply, no. Perhaps the most convincing proof of this is the Federal Government's own admission 2 years ago in what came to be known as the Solomon report. That report drew the following conclusion on the massive tonnage of imports which so badly disrupted the American steel market in 1977:

> If the current rise in U.S. steel imports were simply a reaction to competitive market forces, there would be less cause for U.S. Government concern. But the sharp rise in imports suggests that more than competitive market forces may be driving imports. European producers, in particular, have lowered their prices to the U.S. market since 1976 in an attempt to maintain their output and employment after trying but failing to stablilize their domestic markets through concerted action.

But at about the same time, President Carter himself drew the conclusion that enforcement of the antidumping laws had been delinquent.

One might suppose that in 1977 when the U.S. Government thus discovered that the antidumping laws had not been enforced, they would thereafter be made effective.

The trigger price mechanism (TPM) was devised for just this purpose: to facilitate enforcement of the antidumping laws, by permitting the Government to self-initiate investigations of possible dumping.

As it turned out, over the roughly 2-year period during which the TPM has been in operation, only four cases were so self-initiated by the Government. Three of them involved very small tonnages of plates from relatively minor producing nations—Poland, Taiwan, and Spain—and the fourth involved wire nails from Korea.

These tonnages were only a drop in the bucket of imports in 1978 and 1979 and, in my opinion, are not to be taken seriously as an attempt to stop dumping. The real offenders during this period have been the European producers who, in effect, are given official sanction to dump under the terms of the TPM. This is because TPM is based on Japanese costs which everyone agrees are much below European costs.

So while I would not characterize the TPM as a total failure, for no doubt it has had some restraining effect on some foreign dumping, it certainly has not had the curative effect the industry and the Government had hoped for.

Coming to the second part of this question—the actions that Congress or the executive branch could take to make the laws more effective—I would answer: All that is needed is to enforce the laws as promptly and as fully as the provisions themselves permit.

This is, however, in some respects a new area, since the U.S. antidumping law was revised by virtue of the Trade Agreements Act of 1979. The revisions reflect the antidumping and countervailing duty codes concluded last August in the GATT multilateral trade negotiations, and should therefore be internationally enforceable.

It is United States Steel's view that, if our laws were promptly and fully enforced, dumping could be substantially restrained if not totally eliminated.

It is therefore our hope that those now in charge of trade law enforcement, namely officials of the revamped Commerce Department, will seek to do just that—enforce the law.

You might be interested to know that the Europeans, at least, appear to share our view. In the "Financial Times" of London just a couple of weeks ago their Brussels correspondent reported that:

> According to European (steel) industry experts, as much as 3 million tons of EEC steel products could be barred from the U.S. market if the steel industry there makes full use of the procedures contained in the Trade Negotiations Act passed recently by the U.S. Congress as an adjunct to the Tokyo round international trade agreement.

Let me go to your question No. 3:

How have the antidumping laws affected U.S. consumer prices for steel products?

This question, Mr. Chairman, I am not really sure I understand. Such connection as there is between antidumping laws and consumer prices for steel depends, obviously, on whether the laws are enforced. A law that isn't enforced remains a dead letter and, since I have indicated there has been little or no enforcement, obviously the laws have also had little or no effect on consumer prices.

Perhaps there is another issue that is being raised here, as it often is when dumping is discussed. Dumping will typically involve not only selling at an unfair price—that is, selling below the exporter's home price or below his production cost. It will also usually mean selling at a very low price.

So the question is sometimes asked: Don't low prices benefit the consumer; and if that is what dumping amounts to, why is it bad?

The answer is that dumping typically takes place in time of excess supply of a commodity—too much steel chasing too few buyers. But when times change, as they inevitably do as business goes through its cycles, and excess turns to shortage, then those who previously were dumping quickly turn to price-gouging, as too many buyers chase too small a supply of steel.

Mr. ROSENTHAL. Is there any documentation of that allegation? That is the kind of thing the American public may not understand.

Mr. MONNETT. Let me continue, sir.

This is exactly what happened in the 1973–74 boom period. Then, American steel buyers who previously had been courted by foreign suppliers offering steel at very low, dumping prices, suddenly found themselves being asked premium prices.

The study I cited earlier demonstrated that during this period, foreign steel commanded an average premium of about $60 a ton—roughly 25 percent over average domestic prices. In fact, the total premium paid for imported steel in the 1973–74 period was a staggering $1.8 billion.

But this is only part of the story. Dumping is a destructive practice, and if carried out long enough and on a large enough scale can drive competitors who price fairly out of business. This, then, reduces supply and leaves the customer even more at the mercy of price gouging for the future.

There is no doubt that some of the plant closures that have occurred in the U.S. steel industry over the last 2 to 3 years are, in significant part, the result of dumping by foreign competitors.

If the antidumping laws had been enforced, prices would have been more stable over time, cash flow to domestic producers would have been more readily available and—here we come full circle in the cost-price relationship—better facilities and higher productivity would have held our costs down and enabled us to market steel at

the most competitive prices. So in the end consumers as well as producers could have benefited.

Finally I come to your question No. 4:

To what extent would the overall problems of the U.S. steel industry benefit from a highly efficient administration of the antidumping laws? In other words, would such an efficient administration have a significant impact on the overall well-being of the domestic steel industry?

The answer to this question is a resounding yes. Efficient trade law enforcement would have an enormous and extremely beneficial impact on the domestic industry, in several ways.

First, as my previous comments indicated, if the dumping of steel in the U.S. market were eliminated, there would be significant immediate benefit in the form of higher production volumes, operating rates and employment; higher sales, lower costs, and better profits; and, therefore, improved cash flow available for the modernization of the industry's facilities.

Second, if this improvement in cash flow were accompanied by other needed improvements in capital formation—especially in the areas of environmental expenditures and more importantly, capital recovery—investors would be more willing and more able to commit funds to steel.

I mentioned earlier the need to assure investors that the steel market in the United States won't continue to be disrupted by dumping.

A third benefit would be an improvement in this Nation's balance of trade. The trade imbalance in steel amounted last year to some $5.6 billion—virtually the most important deficit item after oil and automotive imports.

Fourth, there is a huge cost when private U.S. producers prosecute antidumping cases. If the Government were to utilize the powers it has to self-initiate antidumping investigations, these costs could be saved.

And from the overall standpoint of national economic security, I think there is a fifth benefit that is just as important as all the others, but which is not often mentioned. If this Nation made it clear to foreign steel producers that the U.S. open market will remain open only to those who play by the rules of the game in our economic system, that is, pricing fairly in fair competition, then we could be assured of a positive response.

This U.S. market is too valuable to overseas producers to lose. They would avoid dumping if we made it clear, at last, that unlawful practices won't be tolerated. And they wouldn't expand their capacity with the object in mind of disposing in this market, at dumping prices, the production they can't absorb at home.

These five benefits would add up to an enormous improvement in the economic health of our industry. I very much hope your committee will use its influence and authority to achieve it.

Thank you, Mr. Chairman.

Mr. ROSENTHAL. Thank you very, very much.

Mr. Williams.

Mr. WILLIAMS. Mr. Monnett, I appreciate very much your appearing here this morning. Your statement has been very helpful, and speaks to our concerns clearly and precisely.

I do have a couple of questions that I would like to ask you. On page 3 of your statement you say, "Excessive and unfairly priced imports are a major contributor to the involuntary liquidation of the American steel industry."

To what extent does that contribute to the closing of the Ohio Works?

Mr. MONNETT. I tried to point out two things, I believe. At any one time the imports for a quarter or a month are significant but they don't kill you.

Over a longer period of time, however, the industry is unable to participate in the market growth that comes along. Its earnings are restricted to the point where they are not able to afford the funds required for modernization, and improvement of facilities. And as I tried to illustrate, you can't say which drop of water drove you crazy but in the end that is the result.

The Ohio Works with its product mix has been affected by import volume over a long period of time.

Mr. WILLIAMS. I am certain that probably does apply to the other facilities that have closed.

Mr. MONNETT. Yes.

Mr. WILLIAMS. I notice also you state that it appears the primary attention of the antidumping litigation should now be placed in the European markets.

Can you expand on that viewpoint?

Mr. MONNETT. Under the trigger price mechanism as now set up and administered, a price level called the trigger price is established based on estimated Japanese costs of production delivered into the United States.

I don't agree with those costs but whatever they are, this trigger price is an indicator—that is all it is—to the Treasury Department and should state as an indicator a level where they would start dumping investigations.

Around the world in the steel industry it is generally recognized that European costs are well above Japanese costs. Thus, if the European producers are not investigated when they ship in at just the trigger price level, obviously they could be shipping here at prices that are well below their costs.

Therefore, as you can see, Europeans have been and are continuing to dump into this market.

Mr. WILLIAMS. I had the impression that the dumping of foreign steel, according to your statement, really is damaging the industry with the result that plants must be closed.

Would a significant enforcement of the current law cause this to stop quickly?

I also received the impression from your statement that the current law is adequate if it were sufficiently enforced to deal with the problem. Would you reemphasize those two points?

Mr. MONNETT. Our position has been that our laws are adequate. The new revised trade laws which go into effect January 1 obviously have not been tested, but as our lawyers look at those laws, if they are enforced, the redress which is offered under them, in our opinion, would give us in this country's market fair competition and dumping would be eliminated.

Mr. WILLIAMS. That would significantly——

Mr. MONNETT. It would significantly improve the prospect for the American steel industry.

May I go a bit further? The problem with dumping, as I tried to point out, is that it comes into play as a factor of competition, particularly when volume falls off. The steel industry is a cyclical industry. It will alway be and its operating rate will rise and fall in line with steel demand and capital spending of the economy which that steel industry serves. But when your operating rate falls off and steel is dumped into your market and takes an increasing share of that market, your operating rate falls off more dramatically than any competitive steel industries of the world.

It is this disadvantaging of the American steel industry that leads the investor to say: How can I put my money behind an industry whose average operating rate is X, Y or Z, and whose markets will be more severely impacted in the depression or recession than one might think possible from just looking at the demands of the economy?

This is where you end up.

Mr. WILLIAMS. I believe the chairman of your board touched on this subject in one of the speeches he made in London.

Mr. MONNETT. It was Houston. I didn't think he had been in London.

Mr. WILLIAMS. You say 15 percent of the steel being used in this country is imported steel?

Mr. MONNETT. I don't really know, and it is a matter of forecasting and speculation. Many analysts around the world look at the 1980's and foresee the potential of a very tight steel supply—I wouldn't say steel shortage—sometime in the middle eighties, 2 or 3 or 4 years from now, possibly.

At that point you could see those industries abroad who have built up a position in the United States doing what they did in 1973 and 1974 and doing it at a time which hurts the entire American economy.

We put our industrial base in hostage to foreign steel producers when we allow this to happen.

Mr. ROSENTHAL. Mr. Atkinson.

Mr. ATKINSON. Mr. Chairman, the one word that you have spoken many times, and I think is the whole answer to the entire problem, is enforcement. It amazes me as a Member of Congress that the laws that have been put on the books by prior Congresses are the law of the land and yet there is no enforcement.

I have tried to search out and get information on how many dumping suits were filed, whether we ever collected any money under a violation. I have gone to the Treasury Department and other sources and we come up with zero.

The frustration for me in this situation is, when this subcommittee tried to get information from big oil on supply and cost factors, everything was confidential. A little later, the chairman had hearings on foreign investments in this country, and it is confidential; it is proprietary—we took this from a foreign country and we can't disclose this information—so very protective of foreign investments.

We come to steel and start asking the same questions again. Who is enforcing the law? How many suits have been carried to the

finale? How many dollars were collected? How much is outstanding? No one knows.

Chairman Vanik tried to get this information but was told it will take some months. We asked how can you transfer over the responsibility from the U.S. Treasury to the Department of Commerce within a few weeks and not provide them with what is outstanding?

How can you function if nobody has the answer to these questions?

A figure of $4 billion of imports into this country is mentioned, and that reflects some $730 million of duties that were supposed to have been paid. How much has been collected? We don't know. In one instance there was a $400,000 item of assessment, and over a period of 6 years $7,000 was collected.

If I am an importer and I bring in a product and dump, and I realize nobody is going to push to recover the fines and assessments—the law doesn't say you can't dump, it says if you do dump, you will get an assessment or fine—but if you don't have to pay it, isn't it beautiful? Nobody is watching. Who cares? Unfortunately, I think this is a standard practice.

It amazes me when we ask these questions about how much money is outstanding. I spent some years with Customs. We had communications there with the ports before it was reorganized into nine districts. If there was a question about an illegal entry, all you had to do was plug into the different ports and find out if duty was ever paid on a given commodity at any port.

Obviously, if no duty was paid, it was an illegal entry. The Bureau of Customs, the U.S. Treasury, has that control. If they only do their job, I really believe it would clear up all the problems we are having, not only with steel, but with the rest of the commodities coming into this country.

I am really grateful for your statement. I have something that I have asked to be sent from my office, an antidumping suit that is being brought by another steel manufacturer. Customs' original job was preliminary investigation of the complaint. The company has submitted the complaint for the third time. It is a volume 4 inches thick. It cost hundreds of thousands of dollars to prepare it.

The thing that bothers me so much is if industry violated any of the laws, such as against the environment, industry is immediately assessed, fined, and penalized. The Government requires total accountability, and all the pressures come on the American industry.

But when it goes the other way, where you can protect American industry by the enforcement of laws, then the Government does nothing about it. It is a total frustration to me, and I appreciate the opportunity at this subcommittee hearing to express my disgust with the lack of the enforcement of the laws and with Congress for not finding remedies to protect the industry.

We are subservient to oil—foreign cartels, foreign countries. If that doesn't tell this Congress enough, if we continue to act the way we do, we will be subservient to foreign steel. Then they will run the price up the same as they do with oil.

I have talked to those who represent the Japanese and German steel companies. In the last 30 years, their mills are 100 percent new. That is not taken into consideration. The Marshall Plan did

it. We built our competition, and now we sit idly by and watch them continue to dump their garbage into this country and do nothing about it. It is a very emotional issue with me.

Mr. MONNETT. You used the word that I think characterizes the reaction of many of us in the steel industry and that is frustration.

Mr. WILLIAMS. Will the gentleman please yield?

Mr. ATKINSON. Yes.

Mr. WILLIAMS. This is one more point. I think we are all touched by what is happening to the industry, emotionally, and obviously financially. If we can find a way to achieve satisfactory enforcement of the existing law, to restore a climate of fair trade for American steel, dare we hope that the industry might respond in terms of new investment, increased productivity, higher employment? Or are these plants gone forever? What do you see in the future?

Mr. MONNETT. I obviously cannot speak for the industry. The industry can do whatever it does. I can certainly report on United States Steel's attitude along these lines which Mr. Roderick has expressed in public many times. In the steel part of our business, we have been investing more than we have been earning. There is no reason to think that if we had more money flowing out of steel either in terms of improved capital recovery system, which is simply not competitive on a world basis as it stands now in this country, and which affects not just the steel industry but also the capital goods industry and the entire drive to achieve a competitive rate of productivity. If these factors which are solely within Government's province could be altered to stimulate the industrial development of this Nation instead of trying to block it, I think you would see a growing, viable industry in the United States.

The United States is a great place to make steel. We have raw materials, we have a labor force, we have a concentrated market which is the most valuable thing a steel industry can have around the world.

I have said publicly in the United States and around the world, the United States is a great place to make steel. I would see no reason that most of the steel used in the United States shouldn't be made here. It can be competitive.

Mr. WILLIAMS. Thank you.

Mr. ROSENTHAL. Mr. St Germain.

Mr. ST GERMAIN. No questions.

Mr. ROSENTHAL. Thank you very, very much, Mr. Monnett.

Our next witness is Mr. Robert Crandall, Brookings Institution.

STATEMENT OF ROBERT W. CRANDALL, SENIOR FELLOW, BROOKINGS INSTITUTION

Mr. CRANDALL. Thank you, Mr. Chairman.

It is a pleasure to appear here today before the subcommittee and discuss the problems of the steel industry, particularly as they pertain to enforcement of the trade laws.

Let me begin by introducing myself. I am currently a senior fellow at the Brookings Institution and whatever I have to say here today is obviously my own view and not that of Brookings Institution or other staff members.

Before I held this position I was in Government for approximately 2½ years at the Council of Wage and Price Stability in various positions from Assistant Director to Acting Director to Deputy Director. Until about the last 5 or 6 months of my stay there I was heavily involved in the steel policy which was articulated in the Solomon report and the trigger price system.

In fact, I and a staff of a few people calculated the first set of trigger prices which were released on January 3, 1978. But I have had nothing to do with the enforcement of the trade laws or the administration of the trigger prices other than to make one trip to Japan in May of 1978 to attempt to review the basis for our determination of the cost of production in Japan.

In my testimony this morning I have a statement which I submit for the record. I will not read it.

Mr. ROSENTHAL. Without objection, your entire statement will be inserted in the record.

[See p. 26.]

Mr. CRANDALL. I want to, first of all, examine the premise for the trade laws and the antidumping statute in particular and then go into the specifics as they pertain to the steel industry.

Our trade laws are somewhat unique in their treatment of antidumping. The traditional notion of antidumping has been that sales would be prohibited in a domestic market if the exporter were selling at prices below his home market price and if in fact those sales were damaging the domestic industry.

In our case, the Congress amended the Antidumping Act in the Trade Act of 1974 to include a cost of production standard. It required not only that prices be at least as high as foreign prices, home market prices of the exporter, but that the exporter's price be at least as great as its cost of production.

Briefly put, the law requires that the home market price must be a compensatory price covering fully the exporter's cost of production, otherwise it will have to be a constructed value to constitute fair value in the United States. This constructed value is equal to direct cost plus a 10-percent charge for indirect or overhead costs, plus an 8-percent charge for profit regardless of the structure of the industry.

One may quibble with the rather facile discussion of fairness in competition and its relation to the antidumping laws. I do not think there is much connection. For instance, while I find the 1974 Trade Act amendment and the cost-of-production standard particularly undesirable, I am not even sure that the antidumping law of the traditional variety is a good idea; that is, one which requires us to accept imports only if those prices are above the prices charged by the exporter in his home market.

For instance, assume the European chemical companies form a cartel—the Western European countries for generations have been very good at that—assume that they are indeed charging prices significantly in excess of their cost of production. Would you then suggest that it is a good policy for us to accept chemical products from Europe only on the condition that the prices are at least as high as those cartel prices? Should we not benefit from the world competition and its effect on prices of products sold in our markets

if prices are above their incremental cost of production in Europe but below the cartel prices?

I do not see how enforcing the cartel prices benefits the American consumer. Nor do I understand why it is necessarily fair that firms only be allowed to sell in our market at prices as high as they have been able to persuade their governments to allow them to sell at home.

Second, amending the antidumping law to require a price at least as high as the cost of production has a particularly counterproductive effect in terms of overall international economic stability and in terms of the attempt to combat inflation in this country. The reason is that the cost of production standard which is in the 1974 Trade Act amendments apparently refers to the unit cost of production; that is, as output falls, the cost of production by that calculation would have to go up.

This would mean that in world trade we would have the anomalous situation where in a period of falling demand, exporters would have to raise their prices in our market in order to be engaged in what is referred to as "fair" pricing. As this happens, obviously the demand for the products would fall off and they would have to raise their prices even more. This cannot be a policy which is conducive to economic stability in the United States or even in the world. Such a policy deliberately raises prices in times of recession, contrary to the requirements of stabilizing the economy.

Perhaps a more pragmatic problem is that it is very difficult to administer such a statute. Economists for years have worried about the inefficiencies of regulating public utilities, such as electric utilities with few plants in a single distribution network in a small area. This type of regulation is very difficult to determine precisely what the cost of production is, and therefore what the appropriate rate should be. But that is a rather simple problem compared to the problem of determining what the cost of production of Toyotas or Volkswagens or what the production cost of Polish golf carts or Korean nails or Japanese steel is.

I assure you, steel is a relatively easy case because the production processes are rather separate, often housed in different buildings. It is still, nevertheless, a very difficult problem because there is no such thing as a unique cost of production. Cost of production at one of Nippon Kokan's production plants is quite different from the cost of production in another. The cost of production for United States Steel in the Mahoning Valley is quite different from the cost of production in their Fairless works.

Milton Friedman, the Nobel Laureate economist, once pointed out in a paper that the only reasonable definition of the cost of production is that it is equal to price. That is, all elements of the price must be allocated somewhere and they all implicitly become part of the cost of production. The cost of production is simply the market price even if someone is not being rewarded because economic conditions apparently won't allow it. That is not a facile or superficial answer at all.

For instance, take the European steel industry where they have, as we do, a number of very old plants which are now inefficient. In fact they are carried on the books at values far in excess of their real market value. To assume one ought to continue to depreciate

those facilities and exact capital charges in terms of the book value of those plants is simply naive. Those costs are no longer costs of production. The owners of those plants no longer have title to the book value.

In this country, for instance, the owners of steel equities only have title to between 35 and 40 percent of the book value of their assets. It would be naive to assume that those assets are actually worth their book value and that indeed the cost of production in today's terms is equal to the capital charges on the book value of those plants. Those plants are no longer worth that.

If United States Steel were to be reorganized or sold to another company or, more likely, if a smaller steel company were to be acquired, the value of the transferred assets would simply be written down. They would have to be written down. So determining the cost of production is never an easy matter. It is likely to reflect real market conditions in the economy.

When you come to the steel industry, the reason why the domestic steel industry is now in trouble, selling at say 35 to 40 percent of its book value on the stock market, is that the industry began to lose its competitive advantage in the late 1950's, when they took their longest strike. The equity values of steel began to decline. They have declined erratically but rather steadily ever since. They preceded the general decline in the stock market by more than 10 years.

The stock market recognized something which we have only recently begun to recognize; that is, that we have simply lost comparative advantage in steel. Today our steelmaking capacity is not lower than it was in 1959, in fact it is marginally greater. But the industry has quit growing, it will not grow any more unless we offer it have a rather substantial protection.

For instance, this morning perhaps someone should have asked Mr. Monnett how big a price increase he needs in order to expand the facilities of the United States Steel Corp. I think the answer to that question would be between 10 and 15 percent of today's price, and subsequent increases at the rate of inflation in order to make investments profitable.

It will take at least 10 to 15 percent to induce United States Steel to start the Conneaut project on Lake Erie. That is the only indication we have of any intentions to build a new steel mill in the United States. So we are going to have to raise prices by 10 to 15 percent in order to get the steel industry even marginally rejuvenated. That increase in price, for an industry of $40 to $45 billion a year, is $4 billion to $6 billion per year, a substantial burden on the consumer. I doubt seriously the price is worth it.

Most of those benefits will not go to the steelworkers. The steelworkers in the Monongahela and Youngstown areas are not going to benefit in the long run from such protection. United States Steel will still be forced to close those plants and try to modernize their largest plants. They cannot continue to operate old plants.

Mr. ROSENTHAL. Were they remiss in letting these plants deteriorate?

Mr. CRANDALL. No, I think—I am not sure I have the answer to that question, but I believe the answer will turn out to be that they probably kept them alive too long, that in fact with the develop-

ments of new technology, with the opening of the St. Lawrence Seaway, with the sharp decline in world iron ore prices which began in the late 1950's so the Japanese and other steelmakers could obtain iron ore more cheaply than the U.S. industry can mine it itself, the U.S. industry had to contract and pull back toward the Great Lakes and they probably could not keep those plants alive.

I think the moneys which they have invested in keeping——

Mr. ROSENTHAL. Plants that did not have easy access to waterways, is that what you mean?

Mr. CRANDALL. Yes; plants which were increasingly being distanced from the natural markets, which were gravitating more toward the Middle West as that market grew and as the importers began to penetrate more and more of the coastal markets.

Mr. WILLIAMS. You are not concerned at all about the creation of an OPEC——

Mr. CRANDALL. An OPEC of steel? No.

I think what you have to see in the world steel industry is a rather substantial growth of the less developed countries, one which would have been greater had the Western Europeans not made the mistake of investing substantial amounts in their steel industry in the 1960's and expanding that industry when it too had reached a point at which it had lost comparative advantage.

If the Europeans had slowed their expansion there would have been greater expansion in the LDC's because they could manufacture and ship steel to the United States and Europe much more cheaply than that steel can be produced in Europe or in the United States. In fact, the more the U.S. industry and the European industry builds new plants, the higher will be their costs of production in the short run.

As I said, it is going to take a 10- or 15-percent increase in real price in the United States simply to build one more steel mill. The last one we built was the Burns Harbor plant launched in the early 1960's and has been expanded substantially through 1970. That was the last new steel mill.

So we have had a growth in the LDC's, we have had a growth in a large number of different places. An OPEC of the LDC's would provide a monumental task in cartel management.

Steel is now produced in India, South Africa, Venezuela, Brazil, the Middle East, Korea, Taiwan, Indonesia, the Philippines. There is a steel industry in Australia. All of the Western European countries, the Eastern European countries.

Second, steel is not a product which is going to cause us tremendous disruptions if imports are suspended for a short period of time, whereas a temporary shortfall in world output of 1 or 2 million barrels of oil a day from the Middle East causes enormous problems in the Western democracies. The notion that we would have similar problems from a suspension of steel exports for even a period of 3 or 6 months or longer I think is erroneous. We can easily suffer temporary shortfalls in imports by marginally expanding our own output or using up inventories or simply foregoing replacements of appliances and automobiles.

Mr. WILLIAMS. So you think the system is not contributing at all to the steel industry's problems? Am I reading you correctly?

Mr. CRANDALL. There are many elements of the system. The things contributing to the steel industry's problems are the fact that, first, they have lost comparative advantage relative to the pre-World War II and immediate post-World War II era.

Second, they have suffered rather sharp increases in labor costs in recent years after a moderation of labor costs in the mid- to late-1960's. That has come about for a variety of reasons, some of which are organizational, some of which are simply accidental. That is, they went into a labor negotiation in 1974 when the world steel market was the tightest it had ever been and prices were doubling in a period of 12 months. It was not likely they were going to take a strike then.

In 1977 they also had a difficult bargaining situation because of internal politics within the union. They are faced with very high labor costs, probably $5 to $6 above the Japanese costs. They use slightly more labor than the Japanese industry. They have a major problem. It is a labor-intensive business. It is not likely this business is going to grow in the United States unless it is subsidized and nurtured.

Mr. ATKINSON. Isn't the labor cost a factor when you are considering a newer plant versus an older plant?

Mr. CRANDALL. Yes.

Mr. ATKINSON. When you talk about productivity, if you are putting your heavy capital in nonproductive equipment, in the case of pollution abatement, and so forth, then obviously the productivity of the worker is not affected. You are obviously putting your money into an area that does not produce steel. If you cannot produce steel, cash flow is impacted. You further go into the difficulties of trying then to be more competitive by lowering your price, by newer technology, and you cannot afford to do it.

I would like to ask one thing, Mr. Crandall. Do you have any figure or thoughts on what the impact of the environmental laws has been on the production of steel, the cost of production of steel.

Mr. CRANDALL. That is difficult to calculate because numbers on how much is actually spent on environmental control are by their very nature rather soft numbers since they reflect a very difficult sort of allocation within firms as to how much of a particular investment was actually required because of environmental controls and how much would have been made anyway in the absence of these controls.

The best estimate I would suggest is probably that on a price of around $400 a ton, maybe $8 reflects the cost of environmental controls. It is not a major element. On the other hand, obviously the industry would look a lot more profitable if it had no such costs. But I do not think that is the major problem.

Let me go to your modernization and productivity improvement notion. If you were to build a new plant today, you would probably be forced to charge something like $175 for each ton of steel produced to capital. That is, the necessary cost of amortizing the very large investment in plant, $175 a ton. Today you keep existing plants alive, albeit maybe at a slightly deteriorating rate, for $30 to $35 a ton in today's dollars. So you have an increase of something like $140 in capital costs per ton of finished product.

There is no way you can get $140 worth of labor-saving on a new plant. You might be able to get labor-saving to the extent of 2 to 3 man-hours. I have heard talk of even as much as 4 man-hours. At $16 an hour, you might save $32 to $64 per ton. But that is nothing like $140.

Now you can also get some energy savings but nobody in the industry is going to tell you there is any way you can save $140 a ton in operating costs by building a new plant. That is the reason why there is extreme disinterest in the industry in building a new plant.

Mr. WILLIAMS. You say that in order for the industry to survive, Government subsidies might be required?

Mr. CRANDALL. No, no, not for the industry to survive—to grow. It has not declined very much. Its capacity today is somewhere around 7 million tons above its capacity in that bellwether year of 1959. It will probably continue to decline somewhat—it has already started the decline, and this decline will continue as some of the marginal plants are closed.

I am not sure I can identify which plants obviously, but there will be some further closures in the absence of further protection. But the large integrated facilities in the Great Lakes area, most of our minimills, the refurbished electric furnace mills of firms like Bethlehem and Jones & Laughlin are not going to be closed.

The fact we had new forms of transportation to compete with the railroads did not mean to say the railroads were necessarily all going out of business. It just meant that returns on running a railroad looked miserable for years and years. There as here we spent almost 100 years worrying about how to slow the rate of retirement of capacity. The railroad industry was never going to go completely out of business, but it had overexpanded just as, by current economic standards, the U.S. steel industry is probably slightly too large.

Mr. ATKINSON. You mentioned trade protection earlier. In what way would you suggest that——

Mr. CRANDALL. I would not suggest it, but there are many forms it can take.

We had the voluntary restrictive agreements of the 1969 to 1974 period with the Europeans and Japanese. There is some rumor in the trade press that similar sorts of proposals are about to come from the industry today. We could have formal quotas. We could have more rigorous enforcement of the antidumping laws since determination of fair value I think almost by definition is an arbitrary process. Certainly pressure could be brought on the Commerce Department to fix fair value higher than it has in the past.

Mr. ATKINSON. That is a good point. If you have an import coming into this country, the country of origin, the currency fluctuation and other factors, all have to be considered separately in determining value. If two shipments come in each day from different countries, all of this administratively has to be accounted for in order to enforce the laws on the books now as far as dumping is concerned.

Do you think it would be a fair approach to the problem, a much more simplified one, if the laws of this land said there shall be

nothing brought into this country unless our plants were working at 90 percent capacity or 94 percent capacity?

Do you think administratively that approach is feasible? Of course, I am pro-America, buy-America, as you can probably determine. But do you not think if we all have the same interests and if the American worker is ever brought into the formula—the American person working as opposed to not working, how that impacts on the economy—taking that whole picture, would this approach not work? If we are going to look at America first, if you were pro-America all the way, what would be your solution?

Mr. CRANDALL. I think a proposal for free trade is relatively pro-America because it would force us to put our workers in those industries where they are most productive. I would hate to see us adopt a rule such as you suggested, ignoring the fact one can never define capacity, because it would provide an automatic shield, a guaranteed rate of return, let's say an automatic Chrysler provision for every investment in the United States. You could be assured that you would always be operating at 90 percent, regardless of how inefficient you are in competition with your brethren in the United States or around the world.

Mr. ATKINSON. You do not think domestic competition a better criterion to use than your foreign competition?

Mr. CRANDALL. There are some things we simply cannot do as well as other countries because of different endowments of productive resources, because of different skills, and so forth.

I would hate to see what the price of silk would be if in fact we had to be self-sufficient in silk. There are any number of industries in which it would just not make sense. Textiles is an obvious choice, clothing is another obvious choice.

One would hate to see us become self-sufficient in clothing because of what it would do to productive industry. We simply cannot suggest we can be insular America without paying an enormous price in terms of reduced productivity and output.

Mr. WILLIAMS. What about Japanese suggestions that they do not import 1 ton of steel? We cannot give lifetime employment in the steel industry. We can't write off the expenditures for revitalizing a plant like Japan does. Japan plays that role; why can't we?

Mr. CRANDALL. Let's examine those things one at a time.

We could obviously change our tax policy. There is a considerable movement to change the form of business taxation. If it applies universally to all American business, I am doubtful it will help the steel industry that much, frankly, because the steel industry now does not look like a good investment to capital markets relative to other industries. This is not going to change it that much.

Second, as to lifetime employment, the Japanese have found that that has become a rather painful liability. In fact, in the most recent decline in the steel industry, they developed a way of handling that. It was a capitalist method, called rent-a-worker; they simply hired out their workers to other industries in order to get around this.

As for their import policy, I do not think anyone would suggest that import policy makes sense for their own consumers. They have been a very protective nation.

Mr. WILLIAMS. What I am suggesting is that standard practices in Japan are contributing to the American steelworker losing his job. I think we can deal with that.

Mr. CRANDALL. I thought you were talking about import protection in Japan. I do not think that has any effect on their exports to the United States. At the present time, if you were to enforce the laws more drastically against the Europeans, the Japanese are operating between 75 and 80 percent of capacity——

Mr. WILLIAMS. 86 percent.

Mr. CRANDALL. The problem is, they have closed some blast furnaces. We do not know which of these are considered capacity. They could expand their exports to the United States substantially, probably at prices which would be deemed to be fair value in the United States. In fact, they are unable to do so because of a bilateral agreement with us. They come miraculously close to 6 million tons every year and one cannot think that is a reflection of economic forces. We are keeping Japanese steel out of the United States by informal bilateral agreement.

Mr. WILLIAMS. Exactly, that is what I am saying.

Mr. CRANDALL. I think in fact their import policy has little to do with that except that, rather than in dealing bilaterally with us, rather than reducing their barriers to agriculture, they have agreed to restrain their steel exports. In that sense it has had a beneficial effect on the steel industry; otherwise, I think there would be more exports from Japan.

Mr. WILLIAMS. I see the point you are making.

I am not sure I agree with the view that the only thing we can do for the domestic steel industry is to subsidize it. I think we can do things legislatively and we have the responsibility to pursue remedies along that line.

However, I think steel's problems are very similar to the oil situation. Not enough legislators understand what is happening to the oil industry. I am not critical of those individuals; I am simply saying they do not appreciate the severity of what has happened to the steel industry. It is sad when—using your statement—the last new steel mill built in this country was constructed in the sixties.

There is something seriously wrong with the industry. I am not ready to just write it off and say, "Well, that is the way it is, because Venezuela, Brazil, and many other LDC's are producing steel today."

Mr. CRANDALL. Even if they can do it considerably more efficiently or less expensively than we can?

Mr. WILLIAMS. Absolutely not. We had the same situation in oil 20 years ago. They were producing oil much cheaper in the Mideast, only to find out 20 years later that we were very dependent on them. I think it is very similar, because it is a basic product that this country uses and the world uses. You say it is not similar to the oil situation?

Mr. CRANDALL. I would think there are so many industries which are better candidates for cartelization than the iron and steel industry that it boggles the mind. Copper——

Mr. WILLIAMS. That is true. Would you not agree it can happen because it is a basic product for the world consumer to use?

Mr. CRANDALL. I would say the probabilities are extremely low. I can imagine cartels being formed in almost anything but I would think this cartel would be very short-lived because it would be almost unmanageable.

Mr. ROSENTHAL. Do you have any other questions?

Mr. ATKINSON. I have a million but time is short.

Mr. ROSENTHAL. Mr. St Germain?

Mr. ST GERMAIN. I am being enlightened.

Mr. ROSENTHAL. We are all being enlightened.

Thanks very much.

[Mr. Crandall's prepared statement follows:]

December 20, 1979

Statement by Robert W. Crandall*
Senior Fellow, Brookings Institution

before the

Commerce, Consumer, and Monetary Affairs
Subcommittee

of the

Committee on Government Operations

U.S. House of Representitives

Mr. Chairman, it is a pleasure to appear before the Subcommittee to testify on the impact of imports and U.S. trade policy upon the domestic steel industry. I have been engaged in a study of the steel industry for the past eighteen months since my departure from government where I assisted in the development of the trigger price system. My testimony is drawn from this study, which will be published within the next few months.

Trade Policy and Anti-Dumping. The steel industry is among the first industries to benefit from the 1974 Trade Act amendments to the Anti-dumping Act. These changes altered in a fundamental way the definition of "dumping" and the degree of protection afforded domestic industries which compete in world markets which are subject to strong cyclical influences or are suffereing from persistent excess capacity. The steel industry fits both definitions.

Presumably, the purpose of an "anti-dumping" statute is to prevent "unfair competition" in our markets. The concept of fairness is rarely defined with precision, nor can it be defined in a convincing manner. Traditionally, dumping was defined as the sale in export markets at a

*The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of The Brookings Institution.

price below the domestic price. For instance, if European chemicals were to be sold in U.S. markets below their home-market (European) prices, this would constitute dumping. Essentially, this is the definition of dumping employed in the Anti-dumping Act of 1921. Fair value is home-market value. But is this "fair" under all circumstances?

Assume that the European chemical industry were a tight cartel, charging prices far above costs. Is it "fair" to our consumers to forbid sales in our market below these monopoly prices plus freight? If the Europeans wished to sell at price above their incremental costs in our markets, and if they could compete with our producers at such prices, should we not let them? Undoubtedly, the European cartel could only be effective if Europe erected high trade barriers against our chemical companies' products, but these barriers would hurt their consumers, not ours. The fact that they protect their industry does not mean that we should deny our consumers the benefit of competition from foreign and domestic sources alike. Why is it "fair" to penalize ourselves for the "unfair" prices charged in other countries?

Obviously, the process of negotiating trade policy is not so simple. We need to exploit our comparative advantage, and we need to use the threat of denying imports of one commodity in order to induce countries to lower their trade barriers against our exports of another. This is the reality of trade negotiations, but it should not be explained as the search for the "fair price".

Unfortunately, dumping has taken on a different meaning since 1974. The Trade Act of 1974 amended the Antidumping Act to extend the definition of "fair value" as a price which must be above the "cost of production".

If home-market sales are made at prices below cost (i.e., if firms are losing money at home), they must sell at higher prices abroad. Fair value in these cases is defined as costs (including overhead costs of at least 10 percent of direct costs) plus an 8 percent profit margin. Presumably, cost refers to unit or average cost, a magnitude which rises with falling sales volume and vice versa. Therefore, when markets decline as a country or the world slips into recession, our trade laws require exporters to raise their prices if their exports are deemed to injure U.S. firms or their employees. The deeper the recession, the larger are the required price increases. As export prices rise, sales decline, causing exporters to raise prices once again in order to be "fair". In short, we require exporters to exacerbate a recession by further reducing output -- hardly a sensible economic policy.

Imagine how the 1974 Trade Act definition of "fair value" would work if applied to our domestic economy. In 1979, Ford, Chrysler, and U.S. Steel will lose money on domestic sales. If they continue to sell autos or steel, they are engaging in "unfair" competition per the Trade Act definition. Prices below cost are unfair. Each would have to stop selling immediately or raise prices to a level sufficient to cover costs. If these price increases resulted in substantial losses in volume to their rivals -- General Motors or Bethlehem Steel -- there might be no price at which these companies can make a profit. Indeed, if there were such a price, they would have found it. (One presumes that they do not wish to show negative profits.) Thus, in the name of "fairness" we would have to order the immediate suspension of Ford, Chrysler, and U.S.S. domestic sales!

4.

It would be obvious folly to say that Chrysler has been engaging in unfair competition because it has been losing money. It would be similarly absurd to say that steel producers in Germany, Japan, or the Lorraine have been behaving unfairly because they find the world steel market so weak that they have to offer prices below their full unit costs in order to make a sale. What could their motive be for cutting prices in this manner other than an attempt to use their resources most efficiently and fully during the downturn? The answer from proponents of anti-dumping policy is that these motives are (i) predation or (ii) subsidization of employment. Each deserves careful scrutiny.

(i) Predation. Surely, no one believes that the mini-mills in the Brescia region of Italy or the steel producers in northern France or Belgium are trying to monopolize the world's steel industry by slashing prices in a recession. How could they satisfy this monopoly demand from their inefficient little plants? Nor can one seriously believe that even British Steel or Nippon Steel could monopolize the U.S. steel market. There are so many steel producers in the world and so much entry by new ones that monopolization would simply be impossible. Predation has rarely worked even in the context of insular 19th century America. How could it work in a world steel, textiles, or automobile market? The monopoly profits which one might gain from predation would be so uncertain and so distant that the rational firm would hardly view the immediate cost -- in the form of negative profits -- worth the prospect of future gain. Moreover, the chance that the importing country might tax away the future gains through a variety of policies would have to make the game even riskier.

The proponent of the predation argument has a very heavy burden of proof to bear. How many firms have been able to achieve a monopoly in the U.S. through aggressive predation? How many exporters enjoy this monopoly position? The OPEC cartel is often offered as a prototype, but it is hardly a useful example for most products. The concentration of oil reserves in a small number of countries and the urgency of the need to consume oil combine to make OPEC quite effective. Steel, textiles, shoes, television receivers, and automobiles have neither of these attributes. They can be produced in a number of locations, and we can adjust rather easily to a temporary curtailment of supply of each of them. The mere suggestion of the possibility of a steel cartel among South Korea, India, Japan, Germany, Taiwan, Italy, the U.K., France, Australia, Venezuela, Mexico, and Canada seems absurd. This is particularly true in light of the fact that reductions in supply from these countries would probably encourage increases in supply from South Africa, Brazil, Indonesia, Romania, Poland, and Turkey. The number of players is very large and growing.

(ii) Subsidization of employment. Obviously, the motive for reducing prices is to increase sales, output, and employment. This is how competitive firms respond to a reduction in demand. In fact, it is how monopolists respond as well. To suppose that the proper response to a reduction in demand is an increase in price to cover the higher fixed costs per unit is to be rather myopic. Resources would be even more underutilized in the industry, reducing incomes farther, and adding to the unemployment problems in other industries. The anti-inflationary force of an economic contraction would be lost. Inflation would accelerate. While one cannot argue that price reductions are a general cure for recession, it is clear

that price increases are counterproductive. It does not make economic sense to encourage further idling of resources as a response to slack in the economy.

If exporters begin to slash prices to maintain production levels, they will place downward pressure on import-competing industries in the U.S. The obvious response to this price pressure is for domestic firms to cut their prices to meet the competition. Our firms often complain that this downward price flexibility is disastrous because of the myopia in U.S. capital markets. I rather doubt that our investors are this short-sighted. If foreign firms, facing much less developed capital markets, can engage in price competition, our industrial giants should be able to respond without fearing that their bankers will call their loans. Not all exporters are owned or subsidized by their governments; many engage in price competition without assurances from government. For instance, the mini-mills in Brescia are reputed to be the most aggressive of competitors in this regard, and they are fiercely independent of their national government.

In short, there is no good reason to restrict competitive pricing activities in world trade. We would not suspend the Sherman Act simply because an industry had excess capacity, nor should we impede competitive forces simply because they originate from outside our borders. Allowing flexible prices in import-competing industries will not risk sacrificing our markets to world monopolists, nor will it result in large increases in unemployment. "Dumping" does not cause us to lose employment and output, but the failure to meet foreign competition may have this result.

7.

The Steel Industry. There is no doubt that the U.S. steel industry is in trouble. So are the steel industries of Europe and Japan. Part of the problem is a general condition of excess capacity brought about by slow recovery from the 1975 recession. At least as important, however, is the slowness with which the U.S. and European industries have responded to changing competitive conditions. Since the late 1950's or early 1960's, economic forces have driven steel investments to the less developed world and Japan. New plants are more economical in these countries than in Western Europe or the United States. Despite the change in comparative advantage which occurred because of declining real materials and shipping costs, the Europeans continued to expand and the U.S. companies attempted to maintain their existing plants. Had the U.S. firms begun to abandon their smaller, poorly-located plants ten or fifteen years ago, the U.S. industry might not have faced its current crisis. Had the German, French, Belgian, and British industries closed their small, inefficient plants as they built new ones, their problems would be significantly less severe. The Japanese problem is not poorly-conceived investment, but rather the protectionist policies of the Europeans and the United States. They would be operating much closer to full capacity if they could export freely to the two most important western import markets.

The excess capacity in the world industry is concentrated principally in Japan and Western Europe. Between them, they had approximately 80 million metric tons of excess capacity in 1978 -- or about 15 percent of world capacity. Their average capacity utilization was approximately 70 percent. The United States, on the other hand, enjoyed a fairly strong year, utilizing nearly 87 percent of its capacity. Part of the reason

for this performance was the trade protection afforded the domestic industry by the Trade Act of 1974 and the trigger-price system of implementing it.

Despite rather strong demand and this trade protection, the U.S. industry did not enjoy very high profit rates. Its return on equity after taxes was only about 7 percent -- well below the manufacturing average and even below the rate of inflation. These returns were low because the economics of steel production have turned decidedly against U.S. producers. With small mills which are unable to accommodate all of the innovations of the past two decades, poor locations in light of changes in market location and shipping costs, and sharply rising labor costs, these firms cannot compete at their current scale. Realizing this, Bethlehem, U.S. Steel, and Youngstown Sheet and Tube (since acquired by Jones and Laughlin) have begun to close a number of plants. Many inefficient plants remain as candidates for closure, but the larger integrated plants located in the midwest are in no danger of closing. Nevertheless, competitive pressures will keep even these larger plants from achieving returns comparable to those achieved in other manufacturing industries.

This rather bleak situation cannot be reversed by even rather extreme forms of trade protection. Employment and output in the U.S. steel industry will continue to decline modestly over the next few years. Imports will continue to rise from their 15 to 18 percent range to perhaps 20 or 25 percent. High trade barriers might keep imports to the 15-18 percent range, but only at a substantial cost to the American consumer.

9.

The Effects of Trade Protection for Steel. The 1978 trigger prices were erected by Treasury as a mechanism for enforcing the 1974 Trade Act without disrupting trade patterns. Had the steel companies persisted in their dumping cases against EEC producers, they almost certainly would have won in enough instances to paralyze EEC-U.S. steel trade due to the uncertainties over dumping margins and future determinations. The Japanese could have made up the shortfall after some lag, but the dramatic shift in imports would undoubtedly have caused the Europeans to react strongly, endangering the MTN talks which were nearing completion. To prevent this rupture, the Administration devised the trigger-price system, which was designed to allow the Europeans to continue exporting to the U.S. at prices which would approximate "fair value" in Japan.

It is important to stress that the trigger prices have not been responsible for increased import and domestic prices. Prices would have risen in response to the dumping cases anyway. If anything, the trigger-price mechanism reduced the inflationary impact of the 1974 Trade Act upon steel prices because it allowed steel imports to continue to flow without sudden disruptions. Dumping cases would certainly have been more disruptive than the trigger-price mechanism, and domestic producers could have raised prices while the exporters were attempting to sort out our trade policy.

By my estimates, the anti-dumping trade policy (which took the form of trigger prices) raised U.S. steel import prices by about 8 percent and domestic steel prices by about 1.5 percent in 1978. Given an 18 percent share of imports, the total effect was to increase steel prices in the U.S. by about 2.7 percent. At a $390 average price of carbon

steel and total consumption of 104.5 million tons, the total cost to consumers was about $1.1 billion. At most, the total effect upon the domestic price level was 0.1 percentage points in 1978.

The above calculations are at best rough estimates. We still do not have Commerce data for the value of 1978 domestic steel shipments. Calculating import prices in a world of laissez faire is not easy, given our willingness to use a variety of policies to avoid free trade. Nor should one be deceived by the small size of the total effect upon the price level. Steel import protection is only one example of an unfortunate trend. Textiles, shoes, television sets, meat, and even nails are protected in a similar manner. The sum of the price effects from all such policies could well be a fairly large proportion of the acceleration in the inflation rate in 1978.

How much protection has been afforded steel workers? As in most cases of trade protection, only a small porportion of the benefits go to labor. I calculate the maximum increase in domestic employment of steelworkers due to the trade protection as no more than 18,000. These workers, if laid off, would generally find employment elsewhere, but their real incomes would decline as they turned to less remunerative jobs. Even if they lost $1,000 per year due to the forced transfer of employment, the value of saving these 18,000 jobs would be only $18 million per year -- a far cry from the $1.1 billion in costs to consumers.

How much trade protection would be required to "get the industry moving again"? My calculations suggest that a 10 percent increase in the relative price of steel might be sufficient, but industry sources put the estimate at 15 percent or more. Therefore, consumers would have

to bear annual costs of $4 to $6 billion in order to make new investments in steel plants look profitable. These new investments might employ 35,000 new people at most, The annual subsidy would thus be about $114,000 to $171,000 per additional job created -- a rather expensive form of employment creation.

Conclusion. As the economy appears to be headed into another recession, the steel industry is beginning to look to Washington for new policies which will allow it to weather yet another storm. The apparent goal is a thorough reinvigoration of the industry through the application of $5 to $6 billion in investment per year. A rather heady dose of trade protection or investment subsidy will be required to make such investments even marginally attractive. But these investments will not save the dying and obsolete plants in the Mahoning or Monongahela Valleys. The industry must continue to close the small, inefficient plants while revitalizing the larger, well-located facilities near the Great Lakes.

Trade protection may help this process somewhat but only at a considerable cost to the American consumer and to steel-using industries. The employment gains from such a policy are very small and may be offset by employment declines in steel-consuming industries. The trigger-price system has had some beneficial effects for those supplying capital to the steel industry and has conveyed much smaller benefits for steelworkers. Given the choices available to the Administration under the 1974 Trade Act, the trigger-price system has been a public-policy success. The Congress should, however, ask how many such "successes" we can afford in an era of declining productivity and stagflation.

Mr. ROSENTHAL. Our next witness is Mr. Roger Alcaly.

STATEMENT OF ROGER ALCALY, SENIOR ECONOMIST, POLICY, PLANNING AND EVALUATION, COUNCIL ON WAGE AND PRICE STABILITY

Mr. ALCALY. Mr. Chairman, I am pleased to appear before the committee this morning to express my views on the problems of the steel industry. I have a fairly lengthy statement that has been distributed and I will try to summarize it.

Mr. ROSENTHAL. Without objection, we shall include it in the record.

[See p. 49.]

Mr. ALCALY. Thank you.

I also apologize for any duplication of what Mr. Crandall has just said, but as you know, the Council's interest in the steel question has been a longstanding one, and our last major report on the steel industry, a report to the President on prices and costs in the steel industry in 1977, was in fact directed by Mr. Crandall, and my testimony relies heavily on that work as well as more recent research by Mr. Crandall and others.

I have included in the statement an appendix listing the full array of concern with the steel industry by the Council on Wage and Price Stability; the list includes a variety of direct reports, reports which indirectly deal with the steel industry and filings on regulations affecting the steel industry.

The general problems of the steel industry are, as you know, raising serious policy issues. In addition to the industry's contention that the trigger price mechanism is inadequate protection against imports, the industry members also claim that the price standard, the Council's price standard, is restricting its profits and hence suppressing incentives to expand production capacity and modernize facilities. Industry members are also lobbying for relief from environmental regulations and are urging more generous capital recovery schemes.

My comments this morning are going to focus on the general problems of the steel industry, keeping in mind the fact that the fundamental policy issues that are involved are fairly straightforward and easy to understand, but difficult to balance against one another.

Basically, relief for the steel industry that would achieve protection of jobs and perhaps, to a limited extent, improve national security goals, would come at the expense of an increase in prices in this country. That fundamental tradeoff between employment and price goals is of course basic to many economic decisions and is central here.

The Council on Wage and Price Stability and the administration are very concerned with the tradeoff as it affects the steel industry and are actively studying the question.

Mr. WILLIAMS. When are they going to have an answer?

Mr. ALCALY. I cannot answer that.

As Mr. Crandall indicated, the basic problems of the steel industry really extend to the end of the 1950's. Perhaps the most obvious manifestations of these problems have been the industry's sluggish growth, susceptibility to import pressure, and

pacity. Between 1956 and 1974, for example, U.S. steel shipments grew by only 1.5 percent a year compared to a 4.1-percent rate of growth for total industrial production.

Output of the steel industry reached an average of about 133 million tons per year during the 1965–69 period, but by 1978, a relatively prosperous year, it was only 137 million tons. Slow output growth has resulted in falling employment in the steel industry.

In 1958 the industry employed 523,000 workers compared to 452,000 in 1977. And I might add that the prospects for the future are not bright, given the large role that automobile demand plays in the total demand for steel production and the likely decline in automobile demand because of the switch to lighter materials and smaller-sized cars. In 1976 automobile demand accounted for about 24 percent of total steel demand.

During this period, imports of steel mill products have been rising quite dramatically. Between 1950 and 1958, these imports averaged about 1.5 million tons per year. They rose sharply in 1959 in the wake of the steel strike to about 4.4 million tons, and since then have continued to increase fairly regularly, although in discreet steps, generally rising during years of labor negotiations and dropping off somewhat in the subsequent 2 years. There is a 3-year cycle of negotiations in the industry.

In 1971, a negotiation year, imports reached 18.3 million tons, or about 18 percent of the U.S. consumption. In 1977, the year of most recent negotiation, imports were about 19.3 million tons, also about 18 percent of U.S. consumption, and in 1978 imports did not recede from that level but in fact expanded further to about 21 million tons.

Given these trends, it is not surprising that U.S. producers have operated with considerable excess capacity during the last 20 years. Between 1961 and 1978, capacity utilization rates in steel averaged about 80 percent, providing little reason for expansion. Total raw steel capacity, which had grown, from 131 million tons in 1956 to 154 million tons in 1966 increased by only an additional 4 million tons in the following 12 years.

Despite the fall in employment in the steel industry, the slow growth of productivity has left the industry quite labor-intensive. Productivity grew by only 1.5 percent a year between 1966 and 1978, compared to 2.2 percent a year from 1957 to 1966.

Over the period 1972 to 1974, which includes relatively prosperous years, labor payments in the steel industry averaged something like 64 percent of value-added, a very, high degree of labor intensity compared to 51 percent for all U.S. manufacturing or even 58 percent for the apparel industry.

In light of these figures, it is clear that increased labor costs have played a considerable part in the declining fortunes of the steel industry.

During the fifties, large wage increases were generally met by even higher price increases. In fact some people have argued that this pattern of negotiating high wage increases followed by even more rapid price increases was a means of coordinating oligopolistic pricing in the industry.

Be that as it may, between the late fifties and late sixties, hourly employment costs in the steel industry rose at about the same rate as in all manufacturing generally. But from 1968 onward, wage increases in the steel industry have far outstripped those of comparable workers.

As shown in the first table of my prepared statement, average hourly earnings of production workers in the steel industry rose by 9.2 percent per year between 1968 and 1978, compared to increases of 8 percent for production workers in the automobile industry and 6.4 percent for production and nonsupervisory workers in the total nonagricultural sector.

Mr. WILLIAMS. What does all this have to do with the dumping of steel?

Mr. ALCALY. What this has to do with dumping of steel, or, more generally, with the large role that imports play, is that it shows the source of the lack of competitiveness of the U.S. industry. Basically, the problem of dumping is a problem of lack of competitiveness or lack of price response on the part of U.S. industry.

Mr. WILLIAMS. Apparently the Congress and the administration were convinced that foreign steel was being dumped in this country unfairly and the problem was dealt with in past Congresses.

I am more interested in whether CWPS is convinced that the trigger pricing mechanism is effective. Is it working? Is it adding to the inflation rate?

Can you evaluate it in those terms? Is it in fact inflationary? Some have charged that the TPM is inflationary.

Mr. ALCALY. I do not think there is any question, as Mr. Crandall testified, that the trigger price mechanism has increased domestic prices by an average of about 2.5 percent, perhaps a little more, compared to a situation in which there was no TPM and no antidumping suits.

Antidumping suits might have also led to price increases. Any move to restrict imports——

Mr. ST GERMAIN. Let me ask you something. You will notice I have not asked any questions?

Mr. ALCALY. Right.

Mr. ST GERMAIN. When talk about an antidumping suit increasing the price, does not the fact that the antidumping suit was successful and it was found that there was indeed dumping—in other words a firm in a foreign nation producing a product decides well, we have an excess here, so we are going to sell it, we are going to dump it in the United States where there is a market at a price that is lower than what we are selling it at home, or that is lower than our actual cost; is that not the finding in an antidumping suit, when the suit is concluded and it is found that yes, there was dumping?

Mr. ALCALY. Yes.

Mr. ST GERMAIN. Right. That being the case, we are dealing with unfair competition. There has been a finding that there is unfair competition because there is either a subsidy provided by the foreign government to that firm or the firm is dumping its excess here.

Mr. ALCALY. The question of subsidy is, I think, separate from the question of dumping as defined in the legislation.

Mr. ST GERMAIN. Subsidy where?

Mr. ALCALY. Foreign subsidy to steel companies.

Mr. ST GERMAIN. Yes. But indeed we do know that a lot of foreign nations have very cute gimmicks whereby they can subsidize a firm and you can't put your finger on it, but the net effect is that that firm can sell here at a deflated price.

Mr. ALCALY. I agree that the detection of subsidies is often very difficult.

Mr. ST GERMAIN. Often, sometimes quite difficult.

Mr. ALCALY. But given those difficulties, the FTC in its report in 1976 did find very little evidence of subsidization of European and Japanese steelmakers except for the United Kingdom.

Mr. ST GERMAIN. All right. Let's erase the subject——

Mr. ALCALY. In fact in West Germany the subsidy, the net subsidy was found to be negative because the requirement——

Mr. ST GERMAIN. OK, let's delete the term "dumping," just get back to my initial question. If the antidumping suit was successful and it was found that there was indeed dumping, then how can you say well, this is a higher cost to the consumer and maybe these antidumping suits are counterproductive.

Mr. ALCALY. The effect——

Mr. ST GERMAIN. Because it is an unreal price that they are charging.

Mr. ALCALY. Well, unreal in what sense?

Mr. ST GERMAIN. That it is below the cost.

Mr. ALCALY. Below average cost. But in fact, it may represent rational marginal cost pricing in a period when demand is slack. That is precisely the point; the constructed fair value standard for dumping actions effectively prohibits marginal cost pricing during recessions, which is what you would like to encourage from the point of view of economic efficiency.

Mr. ST GERMAIN. So if you allow that dumping to go on during that period of time, you are adversely affecting a domestic industry, you could drive plants and people out of business and people out of work and then, once they have gotten rid of that excess, the foreign exporter, they come in and say now we are going back to the ordinary price, there is no long term or permanent benefit to the consumer but in the interim you have put people out of work and you have destroyed an industry.

You know what I think is the problem with many of you people who are testifying here is that you go into so gosh-darned much depth into these studies that frankly I wonder if it is not to justify the positions that you hold; whereas, you could do it with much more rationality, just look at cause and long-term effect on productive capacity.

I went through this—these people are going through it with steel. I am from New England. I went through it with textiles. By crackey, we were slaughtered, we were slaughtered, our industry was slaughtered. We lost untold thousands of jobs. You drive around New England, you see innumerable plants that are now warehouse outlets or discount houses employing very few people. It is a tragedy that we should not lose sight of.

Mr. ALCALY. It is certainly a short-term tragedy.

Mr. ST GERMAIN. Hogwash.

Mr. ALCALY. As I understand the situation in New England, there has in fact been substantial regeneration of employment in New England, not in textiles but in other industries.

Mr. ST GERMAIN. My dear friend, I have lived there all my life. I do not know where you get that understanding.

Mr. ALCALY. This has been shown in studies of the region.

Mr. ST GERMAIN. It is absolutely inaccurate, I do not care who made the study. I live there; I have been dealing with this for a lifetime.

We have lived with it. Sometime along the line when we have testimony, I would really like to see it coming over in a way that would seem to be on our side of the fence for a change. We keep justifying all of the actions that are closing down steel plants, closing down textile plants. I think the whole mood of it—I do not question your capabilities or anything else, nor the other witnesses here.

Mr. Crandall spoke to it. You are hearing it from people who live in a town. You look across the street, there is a brewing industry, smoke is bellowing out, steelworkers are working there, and textiles, all of a sudden it stops—Congress, trying to adjust themselves to it, turn to the bureaucracy to try to respond, to give us opinions, even influence Congress if you will with good strong recommendations what the answer might be.

Instead, what we hear is why it happened, short lived, that old story about if your neighbor is out of work it is a recession, but if you are out of work it is a depression.

Let me tell you something on textiles and apparels. I am sick and tired of going into a store to buy some clothing to see "Made in Taiwan," and so forth and so on.

You know I worked in an apparel plant when I was working my way through school. And God, I went through that plant during the last campaign. Where you used to see 300 people on a floor working the sewing machines, you know what you saw; you saw about 10 people uncrating the cartons that come in from overseas.

The apparel manufacturing plants now, what are they? They purchase foreign manufactured apparel and they then sell it through the outlets they have developed over the years. So 800 workers in that particular plant, they are down to about 120 now. It is one thing to look at your numbers, it is another thing to look at human lives and the capacity to earn a living for the family; that is entirely different.

Mr. ALCALY. I think, as I indicated in my introductory remarks, that we are all aware of the fundamental issues that are involved here.

Mr. ST GERMAIN. That is all.

Mr. ALCALY. And that they are fairly simple to identify; the costs in jobs versus the costs in increased prices that subsidization of the steel industry would necessarily produce. While it is easy to identify that basic tradeoff, it is hard in fact to balance those considerations. I do not think anybody is unmindful of the costs in jobs. It is precisely what makes it a pressing issue.

Mr. ST GERMAIN. I think perhaps as to the people who do these studies for us, we should not only look at what university they went to, but what kind of a steel plant or apparel manufacturing

plant they worked in on their way through school, whether or not they know what it is to work for a living, and eventually see those jobs go down the drain.

Mr. WILLIAMS. That is what bothers me. Do we really understand what is happening in this country? You are talking about imports having some effect on the consumer's pricing of goods.

The thing that bothers me is when 13,000 people lose their job in 1 day. Little thought seems to be given about the impact that has on the economy of this country. Is that ever thought about? Or does everybody say the welfare system will pick them up, they will have——

Mr. ST GERMAIN. Trade Adjustment Act.

Mr. WILLIAMS. I am afraid we are losing sight of some very basic problems in the private sector of this country.

Mr. ALCALY. I do not think we are losing sight of the problems.

Mr. WILLIAMS. We are justifying them then.

Mr. ALCALY. No, I do not think we are justifying them either. I think the question is how you deal with that employment problem and whether the way to do it is through subsidizing operations that cannot meet the competitive test.

Mr. WILLIAMS. We just did it for Chrysler, my friend, because we knew the ramifications of what was going to happen.

Mr. ALCALY. Those are precisely the same issues involved here.

Mr. WILLIAMS. Are we going to have to do the same thing for steel and accept the imports? Why do we not say "no," let's enforce the trade laws of this country?

You heard the testimony of Mr. Monnett. There is going to be a tremendous demand for steel in the next 2 or 3 years. Yet we are closing everything down.

Mr. ALCALY. No, I think that although the cost in jobs is substantial, when you look at capacity, the total capacity of the steel industry that is likely to be closed over the next few years, we are talking about maybe a net reduction of steel capacity of something like 8 percent, which does not represent collapse of the U.S. steel industry, nor does it threaten national security goals.

It has a big employment impact which is accentuated by the fact that the closings are in a concentrated region so that——

Mr. WILLIAMS. Would you consider steel as a major item as far as national defense of this country is concerned?

Mr. ALCALY. I am not sure I understand.

Mr. WILLIAMS. The impact of steel, the ability of this country to produce steel, is in the interest of this country militarily as well as economically.

Mr. ALCALY. Certainly steel is necessary for military uses. The point is that there are at least three good reasons why you do not need to subsidize the steel industry in order to meet national security objectives.

The first is that the capacity of the U.S. steel industry would still be sufficient to meet something like 80 percent of total consumption of steel.

The second is that steel imports come from a very wide and diverse group of countries and in fact the distribution of steel production worldwide is becoming more unequal over time, so that

there is no real threat of dependence on an individual country or concentrated set of countries.

The final point is that much domestic consumption could be postponed in times of emergency. So that when you take those factors into consideration, consolidation, and rationalization of production in the steel industry does not seem to pose a major national security threat.

Mr. ATKINSON. Can we jump ahead to page 20, application of the price standard to the steel industry?

Mr. ALCALY. Sure.

Mr. ATKINSON. In your remarks, you say steel is complying with the wage and price guidelines—get into that area.

Mr. ALCALY. Certainly. This is another area in which the steel companies have asked for relief—relief from the price standard. We have data for the first 9 months of the first program year, which extends basically from the third quarter of 1978 through the second quarter of 1979. During that period, of the 21 steel companies with sales of at least $250 million who report, 12, including 7 of the 8 major integrated producers, reported that they were in compliance with the price deceleration standard. One of the major companies and seven smaller firms reported compliance with the profit margin exception.

Of these 21 steel companies, only Northwestern Steel & Wire was placed on the list of noncomplying companies. In addition, a smaller firm, Laclede Steel, was also placed on the list of noncomplying companies. Both Northwestern and Laclede were operating under the profit-margin exception but they were not granted further adjustments.

During this period from September 1978 to June 1979, the producer price index for blast furnace and steel mill products show that prices increased by about 6.3 percent. The seven major producers operating on the price-deceleration standard increased prices about 6.1 percent on average.

The one major producer operating under the profit margin exception increased prices slightly above 6.1 percent. Taking all those figures into consideration implies that the smaller companies were also raising prices pretty much in line with the major companies in order to produce that 6.3 overall figure.

Perhaps the most interesting question that arises with respect to the price standard is why so many of the smaller companies were on the profit-margin exception and only one major company was on the profit-margin exception. Although steel profits have been declining, for only one major company was the decline sufficient to make it eligible for the profit-margin exception. That is because profits in the base period were generally quite low for the major producers.

In the short compilation on page 22 of my statement, for instance, you see that the CWPS definition of profit margins in the steel industry, basically profits over revenues, went from 6.3 percent in 1975 down to 4.6 percent in 1976, 2.1 percent in 1977, and then rose to 5 percent in 1978. So although profits were falling, the declines were not sufficient to make many of the majors eligible for the profit-margin exception because of their very low profits between 1975 and 1977.

For the smaller companies, on the other hand, profits were not as depressed during this early period because they relied to a greater extent on scrap steel in production. Since scrap prices also respond to the business cycle the profits of the smaller companies hold up relatively better during slack periods. Therefore the recent squeeze in their profits due to rising scrap prices has made them eligible for the exception.

Mr. ATKINSON. Your statement is certainly in detail and is appreciated by the subcommittee and is all part of the record.

Let us get into some specific questions.

Let me ask you one question. In July, in response to a request from the Government inflation fighters, the steel industry agreed to a 3-percent increase in steel prices. That agreement seemed to be conditioned on the success of the Government anti-inflation program. Do you anticipate an increase in steel prices in the near future?

Mr. ALCALY. Do I contemplate?

Mr. ATKINSON. You, in your capacity, in your organization.

Mr. ALCALY. We know that some of the steel companies have not used up their allowable price increases under the standards and we would expect that before the year is out those allowable increases will be used up, primarily because of tight market conditions in the steel industry this year.

Mr. WILLIAMS. William DeLancey of Republic Steel was quoted in the Wall Street Journal during the first year of the wage/price guidelines as saying Republic's price rose 8.5 percent, but its costs rose 13 percent. Did your agency in the past year deal with rising costs like you have in other cases where the costs can be documented? Are you familiar with Republic's experience?

Mr. ALCALY. I am not familiar with the case nor can I comment on specific company data. All I can tell you is that the companies are eligible for the profit-margin exception if they experience uncontrollable cost increases.

Had Republic applied, they would have been treated equitably.

Mr. WILLIAMS. There is only one more thing I would like to say. I would like to share with you a statement Vince Lombardi made—you are familiar with Vince Lombardi—there is nothing wrong with being No. 1. The real shame occurs when a champion is willing to accept No. 2.

I am afraid we are treating the problems of our economy as trying to justify the slide, rather than trying to correct the real basic problems that are facing the investors and the working people of this country.

I agree with the gentleman who stated earlier that it is a shame when you see what is happening.

I am sorry that we can't, as legislators, get the message across. Past Congresses have enacted legislation only to find instead of it being enforced, we wind up justifying the need for not enforcing the law. I think that is very sad.

Mr. ST GERMAIN. Following up on that, in listening to you answering the questions and in your colloquy and discussion here, you kept using the word "subsidized"—subsidized, subsidized. What we are asking is that the laws on the books be enforced.

However, it is obvious that if people like yourself look upon the enforcement of the antidumping statute as a subsidy, then it is obvious to me why there is such a lack of enforcement of these laws and statutes because those to whom we have delegated the authority to do the enforcing have a mentality that is, if we enforce this we are subsidizing the industry.

I think that is probably the root of the problem we are facing.

Mr. ATKINSON. Mr. Conyers.

Mr. CONYERS. Thank you, Mr. Chairman. I am sorry I didn't hear you in the beginning, but I have been reading, quite independently of this hearing, an article by Geoffrey Baraclough that dealt with the world steel market and the competition that is becoming more accentuated by virtue of the fact that many countries that were formerly receivers of our steel exports are now developing steel themselves.

As a matter of fact, in many of the emerging Third World countries, one of the major considerations that they move to as they develop their own nationhood is to begin to develop a steel capability, and so they become quite frequently a producer instead of a receiver of many of our goods.

Have you had any experience in examining that phenomenon and can you comment on it?

Mr. ALCALY. I touch on that in my prepared statement and Mr. Crandall talked a little about it in his testimony. Basically, because of the labor intensivity of production of steel and of construction of steel facilities, the only countries where it is economical to build major integrated steelworks at this time are the countries that you mentioned, the lesser developed countries in Eastern Asia, Latin America, and so forth.

Mr. Crandall presented estimates. It is this labor intensity in both production of steel and steel plant construction that makes it uneconomical for the U.S. industry to build such modern plants. Given steel technology, there are relatively limited possibilities for such substituting of capital for labor, and therefore the producing countries with high labor costs are at a disadvantage and more so as the new plants are built.

Mr. CONYERS. You don't see any reversing of that trend?

Mr. ALCALY. No.

Mr. CONYERS. What recommendations do you have in connection with the administration of antidumping laws?

Mr. ALCALY. I have not made any specific recommendations. My remarks basically lay out the factors that have to be considered with respect to strengthening the trigger price mechanism, letting it be as it is or in fact scuttling it entirely.

Basically I think that any import restriction is, in effect, a form of subsidy to the U.S. steel industry which results to a greater or lesser extent in higher domestic prices, and that cost has to be balanced against the costs of not taking such action, which are primarily the costs of high unemployment.

Mr. CONYERS. Isn't there a way in our Government and in our society, with all of our know-how, that we can develop a rational economic system that would lead to the objective of full employment, that goal we have attempted in any number of laws here in

the Congress, and at the Federal level, and that would be consistent with a healthy steel industry?

Do we have to choose between these things? This is a new notion to me that some of these goals that I have been pressing are in some way inconsistent.

What I have been trying to do as one individual legislator is to move toward a full employment economy, and that means not just automobiles or not just steel or not just rubber, but across the board.

It seems to me that if that could occur it will require Government intervention. Even the most conservative members of Government are reconciled to the fact that the Government intervenes in the real world in innumerable ways not just with a loan guarantee—that is the most obvious—but in many, many ways throughout the marketplace and industry.

Have you considered the fact that these kinds of goals can be and are consistent?

Mr. ALCALY. The consistency of the goal, I think, depends on how you define healthy industries; what levels of production you are going to require from a domestic industry of one kind or another.

To the extent that you require higher production levels than the industry can efficiently meet vis-a-vis world competition, then you lose on the price front.

Mr. CONYERS. I am not sure that you are responding to me. Of course, I suppose that is the nature of the problem, but we have 10 million people unemployed—I don't know how many in steel in particular—but the goal toward which I hold out is a generally desirable objective of full employment in this country, that the steel industry continue alive and well and there be full employment there too.

If you are saying because of technology and foreign competition we run into a stiff pricing competition where we can have importers beat our prices, that is the situation that we face in almost every industry. The automobile industry for some reason is foremost in my mind this morning when we talk about those kinds of considerations.

That is the nature of international industrial competition in the world marketplace that we are getting a little bit accustomed to. We are not newcomers to it. We are the people who are intervening as far as I can tell in more marketplaces than anybody else.

It is true that many of the developing nations we assist immediately turn into our major rivals in just a few years.

That always sort of leaves me with desiring some further understanding but nevertheless, we know we are going to have to compete. We know everybody is going to have to compete.

Nobody ever tells us about Japan having a labor problem. People there want more money, more benefits, and they are faced with rising costs and shortages of oil just as we are.

Everybody has to deal with that as we compete.

So I don't think we have to trade off unemployment to stay in the world market. Nor do I think we have to get wiped out by foreign imports because we want to keep full employment and union wages with all the benefits that accrue.

Isn't there somewhere in our Government where commissions sit down and examine how we accomplish all of these things rather than ask us to make impossible choices? Because I can go back to Detroit and say, well, I chose to keep a few people in steel and it is going to unemploy a lot more but we will be able to manage that way or that we are going to let all the imports come in and take a beating there because we are paying too high labor costs.

People, for some reason, are not willing outside of Washington to look kindly upon those kinds of suggestions. They say, wait a minute, how about everybody working in Detroit and in the Northeast Corridor and getting union wages and competing in the world market? Can you work that one out, Mr. Congressman?

That is the question I want to bring to your attention.

Mr. ALCALY. These hearings occur because the steel industry has serious problems. There is the prospect of more plant closings. Why is the steel industry facing these problems? That is the question I was trying to address earlier. The industry is facing these problems because of the competitiveness of foreign producers of steel. Without Government intervention of one type or another, the industry's capacity will probably be trimmed back some more.

The trimming back will not represent a collapse of the steel industry. It has been estimated that the total reduction would be about 8 or 10 percent, something in that range.

Mr. CONYERS. As we approach double digit unemployment what do you suggest these people being trimmed back do, to use the term—what precisely would you imagine they will be doing, going to Detroit maybe?

Mr. WILLIAMS. Would the gentlemen yield?

Have you even recognized what happens to a community? There is a community in the Mahoning Valley that lost 72 percent of their operating funds, which means that even the people who don't work in the steel mill lost fire protection, police protection, services that industries provide.

Do you realize the costs the Government will have to absorb through grant or loan programs to keep this community providing essential services? I am sure it has happened in some of the other areas.

Do you ever look at the overall picture? I notice that when you were asked about the sources of steel's problems you did not even refer to imports. You didn't even mention that as one of the causes. You simply said that imports tend to keep prices down.

I absolutely disagree with you that this country does not have the ability to compete. We do. The American consumer will buy American products. But as long as we keep opening the doors and bringing in anybody who wants to dump a product here—we are not talking about anything fair. We are talking about dumping a product, literally taking an excessive amount and dumping it here on this market. We are trying to justify that.

I think that is sad and I don't think some of the departments here are recognizing the impact that it is having on government, communities—and private citizens.

It is not only affecting the unemployed steelworker; it is literally closing down communities.

You can be very shortsighted by saying it is temporary, it will be all right, the long-term answer is more productivity. That is really not, I think, as the gentleman indicated, being very realistic. That is not really answering the problems.

I will be happy to put you on a plane with me and take you to Youngstown.

Twelve thousand people lost their jobs in the last 6 months. They wiped the steel industry out of that valley. It was No. 2 in the world 30 years ago—in the world. I am saying Government contributed to that.

Wages have contributed to all our rising costs. Sure you can make that statement and it is correct, but it is not the problem. The American auto producer has the ability to compete, and he is doing it. He recovered. The Government didn't contribute to the demise of the auto industry. They turned the auto industry around in 3 years, doing it by going from a gas-guzzler to a smaller vehicle that will compete with the foreign car.

The problem is, if you work for Toyota in Japan, you buy Toyota. That is the problem.

They are being unfairly treated in this country and we are trying to justify it by saying, well, we have to be careful because it tends to keep the price down.

Thank you for yielding.

Mr. CONYERS. Thank you, Mr. Chairman.

Mr. ATKINSON. I certainly appreciate your coming here and appreciate your views and those of the people you represent. I am wondering, in your statement did you have anything there about what effect cost of government regulations has had on the steel industry?

We know there are some 5,600 regulations in 26 different agencies that impact on steel. Do you have any idea of what the administrative costs of that are to comply with those regulations?

Mr. ALCALY. No. I think all we have are some figures on pollution control expenditures as a percentage of investment and those figures are somewhat dated, but in 1976, pollution control investment was estimated to be about $500 million or 15 percent of total capital expenditures.

In Japan, by comparison, pollution control investments were estimated to be about 20 percent of total investment.

This is discussed in the 1977 CWPS report.

Mr. ATKINSON. I understood that the Japanese investment in pollution control equipment is at 20 percent of total investment compared to the Americans at 15 percent.

Mr. ALCALY. In 1976 it was 20 percent.

Mr. ATKINSON. The thing that amazes me about it is that with the relatively new plants that they have in Japan and the old plants that we have, the percentage is so large.

What is your point of reference on that?

Mr. ALCALY. This was taken from the 1977 CWPS report to the President on prices and costs in the U.S. steel industry.

Mr. ATKINSON. Are there any further questions?

We certainly thank you for your time.

[Mr. Alcaly's prepared statement follows:]

STATEMENT OF ROGER E. ALCALY,
SENIOR ECONOMIST, COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS, SUBCOMMITTEE
ON COMMERCE, CONSUMER AND MONETARY AFFAIRS, U.S. HOUSE OF REPRESENTATIVES
DECEMBER 20, 1979

I. Introduction

Mr. Chairman, my name is Roger Alcaly. My position is Senior Economist, Council on Wage and Price Stability. I am pleased to appear here today to present the Subcommittee with my views regarding the problems facing the steel industry.

The general problems of the steel industry are raising serious policy issues. The industry contends that the price standard is restricting its profits and hence suppressing incentives to expand steel-production capacity and to modernize facilities. Industry members are lobbying for general relief from the standard and threaten to violate it if they do not receive such relief. They are also pushing for more rapid capital recovery, more flexible environmental regulations and additional protection from foreign competition. They argue that the Trigger Price Mechanism (TPM) is inadequate and threaten to invoke the Anti-Dumping Act in order to obtain additional relief. In addition, an outbreak of plant closings, which may or may not be related to the upcoming labor negotiations, raises the possibility of another request for a Chrysler-type financial bail-out and creates a strained environment for the negotiations.

The Committee's interest in the steel industry is timely and welcome. The considerations involved in designing an appropriate policy response to the problems of the steel industry, although fundamental and straightforward, are not easily balanced against one another. Basically, the inflationary impact of government

assistance to the steel industry, whether through relief from the price standard or from foreign competition, must be weighed against the loss of jobs that will result from plant closings and other forms of consolidation and rationalization of production within the industry. The national security implications of reduced U.S. steel capacity -- perhaps 8 percent less than current levels -- must also be factored into the assessment. The Administration and Council on Wage and Price Stability (CWPS) are currently grappling with these and other elements of the steel situation in an attempt to develop appropriate policy.

My comments are intended to provide background information on the malaise of the steel industry and the impact of alternative policies. I should emphasize at the outset, however, that the Council has had a longstanding concern with the steel industry. As shown in the Appendix, CWPS has produced two major studies of the industry -- A Study of Steel Prices in July 1975 and a Report to the President on Prices and Costs in the United States Steel Industry in October 1977 - as well as a variety of less comprehensive reports and numerous filings on the costs and benefits of proposed changes in regulations affecting the steel industry.

The Council's 1977 study of the steel industry was directed by Robert Crandall (now of the Brookings Institution) who is also testifying before you this morning. My testimony relies heavily on this report as well as more recent work by Crandall and others. Section II contains an overview of the steel situation and an examination of the effects of trade protection. Section III examines

the application of the price standard to the steel industry, and Section IV discusses the upcoming negotiations with the United Steel Workers of America (USWA).

II. Malaise of the Steel Industry and U.S. Trade Policy

A. General Trends

The fundamental problems of the U.S. steel industry are reflected quite clearly in its sluggish growth, susceptibility to import pressure, and excess operating capacity. Between 1956 and 1974, U.S. steel shipments grew by only 1.5 percent per year, compared to a 4.1-percent rate of growth of total industrial production. U.S. raw steel production was especially depressed (averaging about 90 million tons) during the late 1950s. Output recovered during the 1960s, reaching an average of 133 million tons per year during the 1965-69 period, but, by 1978, a relatively good year, it was only 137 million tons. Slow output growth has resulted in falling employment in the steel industry: in 1958, the industry employed 523,000 workers; by 1977, employment had fallen to 452,000.

Imports of steel mill products, which had averaged less than 1.5 million tons per year from 1950-58, rose sharply to 4.4 million tons (less than 5 percent of U.S. consumption) in the wake of the steel strike of 1959. Since then, these imports have continued to rise in fairly discrete steps (generally increasing significantly in years of labor negotiations and falling somewhat in the next two years). In 1971 (a negotiation year), imports reached 18.3 million tons, or about 18 percent of U.S. consumption; in 1977

(the year in which the most recent negotiations took place), imports were 19.3 million tons (again about 18 percent of U.S. consumption). However, in 1978, imports did not recede; in fact, they expanded further to 21.1 million tons (slightly more than 18 percent of U.S. consumption).

Given these trends, it is hardly surprising that U.S. producers have operated with substantial excess capacity during the past 20 years. Between 1961 and 1978, capacity-utilization rates in the U.S. steel industry averaged only 80 percent, providing little reason for expansion and modernization of steel facilities. Raw-steel capacity, which had grown from 131 million tons in 1956 to 154 million tons in 1966, increased by only 4 million tons in the following 12 years.

Despite falling employment, the slow growth of labor productivity has left the industry quite labor intensive. Productivity grew by only 1.4 percent per year between 1966 and 1978, compared to 2.2 percent a year from 1957 to 1966. Over the period 1972-74, which includes the boom years of 1973 and 1974, labor payments in the steel industry averaged 64 percent of value added, compared to 51 percent for all U.S. manufacturing industries. (Even the apparel industry is less labor intensive, with labor payments accounting for 58 percent of value added.)

Viewed from this perspective, the importance of increased labor costs to the U.S. steel industry is clear. During the period between the end of World War II and the recession of 1958, steel producers typically settled for large wage increases that were soon followed by price rises in excess of the increases in unit labor costs. At least one observer (Adelman) has interpreted this

annual "rite of spring" as a means of coordinating oligopolistic pricing. In any case, between 1947 and 1957, hourly compensation in the steel industry increased 5.2 percent per year on average, and steel prices rose by 7 percent annually.

The recession of 1958, the beginning of increased import competition, and the steel strike of 1959 broke this pattern. Between 1957 and 1967, hourly employment costs in the steel industry rose at about the same rate as those in all manufacturing industries. From the 1968 agreement onward, however, wage increases in the steel industry have outstripped those of comparable workers. Average hourly earnings of production workers in the steel industry rose by 9.2 percent per year between 1968 and 1978, compared to increases of 8 percent for production workers in the automobile industry (see Table 1) and 6.4 percent for production and nonsupervisory workers in the total private nonagricultural sector.

During the same period, productivity (output per production-employee hour) increased by only 1.6 percent per year in the steel industry, and prices rose by 9.1 percent per year.

High and increasing labor costs have undoubtedly been a significant cause of product-price increases over this period, as steelworkers have enjoyed far larger wage gains than the average worker, even as the industry has continued its long-term decline. The 1974 and 1977 steel agreements were major contributors to this growth in average hourly earnings. Compensation in the steel industry was about 30 percent above the manufacturing average in the mid-1960s. The premium rose to about 40 percent by 1973, more than 50 percent by 1974, and almost two-thirds by 1977.

TABLE 1

Average Hourly Earnings of Production Workers (dollars) 1/

Year	Blast Furnaces and Basic Steel Products (SIC 331)	Motor Vehicles and Car Bodies (SIC 3711)
1968	3.76	4.02
69	4.02	4.23
70	4.16	4.42
71	4.49	4.95
72	5.08	5.35
73	5.51	5.70
74	6.27	6.23
75	6.94	6.82
76	7.59	7.45
77	8.36	8.22
78	9.41	8.97

1/ The SIC categories match closely the steel and automative worker bargaining units covered by collective bargaining agreements in these industries.

SOURCE: Employment and Earnings, 1909-78, Bureau of Labor Statistics.

B. New investment and rationalization

Perhaps the most immediate question that arises from these figures is why the U.S. steel industry has not substituted capital for labor more rapidly. The basic answer is that it would have been unprofitable to do so (given steel technology, input costs, the relative productivity of new and existing facilities, and the level of international competition). Apparently, the basic plant design precludes wholesale substitution of capital for labor, regardless of the relative prices of those inputs.

This can be seen clearly in a comparison of operating costs for "best practice" steel facilities (the most efficient existing facilities) and "greenfield" steel facilities (new facilities on new sites as opposed to new or refurbished facilities on old "brownfield" sites). As Table 2 indicates, greenfield plants are estimated to reduce noncapital operating costs per net finished ton of flat-rolled carbon steel by about $40 ($14 is attributable to savings in labor expenses and the remainder to savings in coal, other energy supplies, and miscellaneous factors). These savings are clearly not sufficient to offset the $136 increase in capital costs per unit of output. (Of course, if labor and energy costs were expected to rise substantially more rapidly than other costs, these conclusions might be altered.) Moreover, the $431 total operating cost of greenfield facilities compares unfavorably to the current U.S. price of about $365 per net ton.

Thus, the labor intensity of steel production and steel-plant construction and high labor costs discourage investment in new integrated steel works in the U.S. At present, only Eastern Asia and South America are likely to attract new steel investment. Nevertheless, total operating costs of the best existing U.S. steel facilities are competitive with those of these new facilities.

TABLE 2

Estimate of Current Best Practice versus Greenfield Plant Cost of Production in the United States. (1978 dollars per net finished ton of flat rolled carbon steel products)

Current Best Practice		Greenfield Costs
$112	LABOR	$98
55	COAL	50
55	IRON ORE	55
88	MISCELLANEOUS (including other energy)	67
25*	CAPITAL	161**
$355	TOTAL COST	$431

* Annual outlays required to maintain plant at current efficiency (net interest plus depreciation).

** Assuming 0.172 capital charge and construction cost of $937.50 per net finished ton.

SOURCE: Forthcoming study of the steel industry by Robert Crandall.

It appears that the steel industry is in the process of improving its efficiency, not so much by capital investment and modernization as by the elimination of relatively inefficient plants. In 1977, Bethlehem and Youngstown Sheet and Tube (subsequently merged with Jones and Laughlin) began to eliminate their older, inefficient mills and to concentrate on their more profitable facilities and product lines. Just last month U.S. Steel announced that it was closing 15 plants in eight states -- these plants account for about 3 percent of the company's total raw-steel production capacity of 30 million tons and approximately 5 percent of its 1979 sales and employ 13,000 workers, or about 8 percent of its total work force of 166,000. Less than 24 hours later, in a move expected for over a year, Jones and Laughlin announced that it would begin phasing out its Brier Hill steel mill shortly after Christmas, resulting in the loss of an additional 1,400 jobs in Youngstown, Ohio.

A 1975 study by A.D. Little showed that about 8 percent of U.S. raw-steel capacity (approximately 155 million tons) was located in plants with average costs at least 15 percent above the industry average. Plant closings before last month's announcements closely approximated 4.7 percent of U.S. capacity identified by A.D. Little as coming from plants with costs at least 20 percent above average. (U.S. Steel, the largest firm in the industry, appears to have the greatest number of plants below minimum efficient size; some of those are included in last month's announcement.) Crandall estimates that 8 percent is a reasonable upper bound for the fraction of U.S. steel capacity likely to be eliminated.

Retrenchment of this general magnitude certainly does not constitute collapse of the U.S. steel industry. Moreover, it is likely to occur even with trade protection. There may, however, be significant implications for the locations affected. (Efficient, integrated steel production in the U.S. appears to require proximity to Great Lakes ore deposits and transport routes, and distance from import competition.) Most of the inefficient capacity that has been identified is located in the Monongahela Valley, the Mahoning Valley, and the Southeast. The recent decisions by U.S. Steel and Jones and Laughlin will eliminate almost 5,000 jobs in Mahoning County, where there are about 8,500 people out of work and the unemployment rate is 6.3 percent.

C. Foreign competitiveness and domestic prices

Although high and rising labor costs have played a major role in the reduced competitiveness of the U.S. steel industry, much of the increase in U.S. producers' costs over the last 30 years relative to those of foreign producers can be attributed to competitive developments that lowered the cost of basic raw materials to foreign producers and the diffusion of new technology. Increases in the world supply of iron ore during the 1960s, in large part in response to fears of impending shortages and rapidly rising prices in the U.S. during the immediate post-war period, eliminated the U.S. steel industry's advantage of proximate, low-cost sources of supply (much of it owned by the steel companies themselves). The cost of iron-ore to Japanese producers, for example, fell by almost 40 percent from 1957 to 1967, reducing steel-production costs by about $25 per net finished ton (U.S. finished-steel prices

averaged about $150 in 1967). During the same period, iron-ore prices in the U.S. rose slightly.

Declining shipping costs also contributed to the fall in raw-materials prices and to the competitiveness of imports in the U.S. market. From 1957 to 1968, the cost of shipping iron ore from Brazil to Japan fell by 60 percent. The completion of the St. Lawrence Seaway increased the accessibility of Japanese and European imports to the U.S. market.

The effect of the diffusion of new technology was also substantial. In the late 1950s, Japan's labor productivity was about half that of U.S. firms; Japanese producers were able to compete in world markets only because of low wage rates. Japanese wages (measured in U.S. dollars) rose by 244 percent between 1958 and 1968, but unit labor costs fell by more than 30 percent because of the introduction of new integrated steel facilities at coastal locations. Today, the average size of the 17 integrated mills of the five largest Japanese producers (who account for more than 80 percent of Japanese capacity) exceeds 7 million net tons, compared to the minimum efficient scale for an integrated greenfield plant of between 6 and 7 million tons. In fact, there are only 7 steel companies in the U.S. with total capacity equal to that of a single integrated plant of minimum efficient scale.

Imported steel prices have been declining relative to domestic prices since the late 1950s; by the mid-1960s they were less than U.S. domestic prices, despite freight and handling costs and

import duties. Moreover, Japanese export prices appear to respond to changes in factor costs and world-market conditions, rather than to domestic employment goals. These Japanese export prices are reflected in U.S. import prices (and, to a lesser degree, in domestic steel prices) fairly quickly. Shares of imports (and domestic production) in the U.S. market respond to changes in relative prices with lags of up to two years.

In two instances -- the voluntary restraint agreements (VRAs) with European and Japanese steel exporters in 1969-74 and the trigger price mechanism (TPM) of 1978 -- U.S. trade policy has attempted to aid U.S. steel producers. The VRAs limited Japanese and European exports to the U.S. to 14 million tons in 1969 and gradually rising levels in subsequent years. If each country had to compete for a share of the quota, the arrangement might have resulted in lower import prices. The shares of the quota, however, were fixed, and most studies indicate that the effect of the VRAs was limited imports but increased prices through 1972. After that time, the limit on imports was not binding.

The TPM was instituted in response to rising steel imports and severe financial pressure on U.S. firms in 1977 that led to charges of dumping against European and Japanese steel producers. According to the 1977 CWPS report, had dumping complaints been processed under the amendments to the Anti-Dumping Law contained in the Trade Act of 1974, European imports would have been sharply curtailed (although possibly supplanted by increased imports from Japan), thus

threatening the multilateral trade negotiations then in progress. The TPM, recommended by Undersecretary of the Treasury Anthony Solomon, who had negotiated the VRAs in 1968 while at the State Department, instituted a "reference" or "trigger" price, based on Japanese costs of production at standard (five-year average) capacity utilization, to determine if there was prima facie evidence of dumping.

Dumping, as typically defined in world trade and in the Anti-Dumping Act of 1921, refers to significant sales in export markets at prices below those in the home market. In the 1974 Trade Act amendments, however, a new standard was introduced to apply in situations in which substantial home-market sales are at prices below average production costs (a standard by which U.S. steel firms could demonstrate dumping). In such instances, these domestic sales are disregarded in the determination of "fair value". Moreover, if the remaining sales are inadequate for determining fair value, the "constructed value" of exports, calculated as the sum of unit costs (direct production costs plus 10-percent overhead) and profit equal to 8 percent of total costs, becomes the standard for determining if dumping is occuring. By redefining dumping as sales below unit costs plus 8 percent whenever exporters are losing money in home markets, the new U.S. Anti-Dumping Law acts to a large extent to prohibit marginal-cost pricing during recessions. However, accurate data on home-market prices, let alone constructed values, are often difficult to obtain, given the wide variety of products produced from common facilities.

68-865 O—80——5

The TPM simplified matters somewhat since reference prices are calculated only on the basis of Japanese production costs. More importantly, these production costs were calculated at 85-percent capacity-utilization rates, rather than the 1977 level of 72 percent. Under the formula, European steel continued to be sold in the U.S., while U.S. firms gained a degree of protection without lengthy legal proceedings.

Recent econometric evidence indicates that the VRAs and TPM had similar effects. The TPM, for example, has been estimated to have increased import prices by about 8 percent and domestic prices by about 1.5 percent in 1978. (In the case of the VRA's, the increase in U.S. import prices ranged from 3 to 9 percent and exceeded the increase in Japanese export prices, suggesting that the agreements cartelized exporters to the U.S.). The TPM thus tended to increase average U.S. steel prices by approximately 2.7 percent. (Anti-dumping actions, however, might have resulted in even larger price increases.) Imports appear to have been reduced by about 4 to 5.5 million tons, and U.S. production rose by a slightly smaller amount. In short, the major impact of these programs was on import prices, with most of the gain accruing to foreign producers, while the effects on the U.S. steel industry were too small to reverse the long-term trends described above. Except for the commodity-boom period of 1973-74, the steel industry was not as profitable as manufacturing generally under either program of import restraint.

U.S. steel companies are now indicating that they may proceed with anti-dumping actions. In announcing its recent plant closings, U.S. Steel expressed dissatisfaction with the present TPM and indicated that anti-dumping suits might be filed before the end of the year. Assuming that U.S. producers are operating with excess capacity and can therefore plead "injury", it appears that such suits are most likely to be effective against the more inefficient European suppliers. (Given the lags with which imports appear to respond to relative prices, the extent of U.S. excess capacity will depend on whether the current and future trade-enhancing effects of the 1977-78 declines in the value of the dollar are offset by falling U.S. demand during late 1979-80. So far this year, the steel industry's position in terms of production, capacity utilization, profitability, employment and import penetration, is considerably better than it was in 1977 and 1978.) The implication for U.S. steel prices will then depend on the degree to which imports from other countries expand to fill the gap created by reduced imports from Europe. Imports from the new efficient mills in developing countries, however, might be restricted through the strengthened countervailing-duties provisions of the Trade Act since many of these countries subsidize steel investment or maintain state ownership of the facilities.

Steel producers in Japan, Mexico, and Canada appear to be relatively immune to either dumping or countervailing-duty suits. As long as their exports to the U.S. are not constrained by quotas or capacity limitations, actions under the trade laws

are likely primarily to affect the distribution of imports rather than their volume, with minor impact on U.S. prices. This would appear to be the case whether or not the TPM is scuttled. A beefed-up TPM, on the other hand, would more seriously affect U.S. imports and prices, but the magnitudes of the price increases necessary to alter the basic evolution of the U.S. steel industry are not easily justified.

It should be noted that national-defense objectives do not seem to require protection of the U.S. steel industry, and that neither costs of complying with environmental standards nor European or Japanese government subsidies to their steel industries have significantly affected the fortunes of the U.S. industry.

At least three factors militate against the need for protecting the U.S. steel industry on national-security grounds. First, steel capacity in the U.S. is still sufficient to meet more than 80 percent of total demand, even during periods of peak demand. Second, U.S. steel imports come from a large and diverse set of countries, and the distribution of world steel capacity is becoming more dispersed over time. Third, much domestic steel consumption can be postponed. For example, steel used in automobiles, home appliances, and containers for consumer goods accounts for almost 30 percent of U.S. steel consumption; by comparison, steel used by the military during the peak of the Vietnam War was 20 percent of total consumption. (The argument that investment yields an external economy because of the deterrent effect of a large national capital stock suggests the need for a general subsidy to basic industry rather than to steel alone. It also has been

suggested that investor anticipations of the possibility of price controls on key sectors of the economy during national emergencies depresses investment in these areas below optimal levels. Although steel is an obvious candidate for price controls, it does not appear that the subsidy required to balance investor fears and induce more optimal investment would be great enough to justify construction of new integrated steel facilities in the U.S.)

The 1977 CWPS report on the steel industry noted that, although costs of complying with environmental standards are not presently large compared to the major components of steel-production costs, they are potentially large enough to influence modernization decisions, particularly in light of the confusing state of the regulations and the manner in which they are implemented. Department of Commerce data on environmental outlays, which are difficult to separate from overall capital investment figures, show that pollution-control investment by the steel industry was almost $500 million (or 15 percent of total capital expenditures) in 1976, compared to about $100 million per year in 1967 and 1968. A rough estimate of the annual operating costs (including capital charges) for environmental improvements in 1976 was $8 per ton. Japanese costs are probably quite similar, since their pollution-control outlays have been estimated at more than 20 percent of investment; the $600 million expenditure on pollution control in 1976 was 20 percent higher than the U.S. figure for that year.

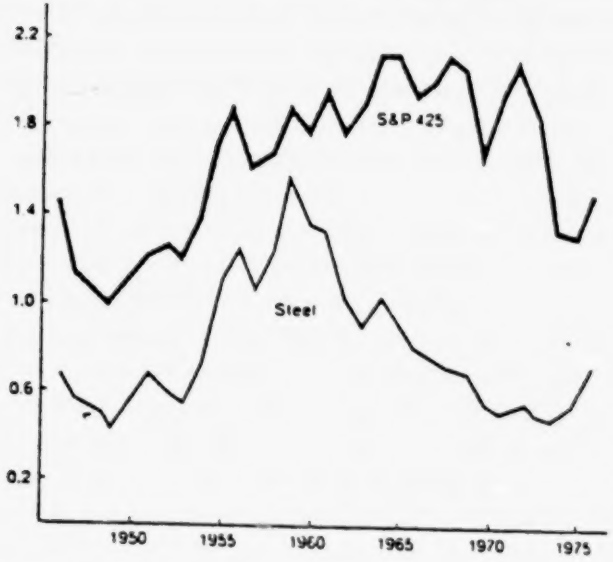
It is extremely difficult to isolate foreign subsidies to a particular industry, because many of these subsidies are embedded in financial arrangements that differ across countries but not

necessarily across industries within a country. Similarly, rebating excise or other taxes is not a subsidy in the usual sense if the rebate provisions apply equally to all industries. A comprehensive study by the FTC found that subsidization of European and Japanese steel industries was insubstantial except for the U.K., where subsidies amounted to 3 to 4 percent of the value of steel output. The net subsidy to the West German steel industry was actually found to be negative because of the legal requirement that West German steel producers buy expensive West German coking coal. For Japan, the average subsidy over the period 1951-75 was estimated to be less than $0.50 per ton.

From our current vantage point, it is hardly surprising that the profitability of the U.S. steel industry has fallen quite dramatically over the past two decades. From 1950 to 1957, rates of return on equity in the steel industry were comparable to, and typically exceeded, those in U.S. manufacturing industries generally. Over the next 20 years, however, the average return on equity in steel was approximately 25 percent below the manufacturing average. Investors appear to have recognized the implication of developing world competition in the steel industry as early as 1958-59. Prices of steel stocks have fallen quite sharply and continuously since the late 1950s, depressing the ratio of market to book value from 1.6 to less than 0.6 in 12 years (see Figure 1). For the Standard and Poor index of 425 industrials, by comparison, this ratio continued to rise to a plateau in the late 1960s and

Figure 1

The Ratio of Market to Book Value* of Equity, 1946-1976, Steel Industry vs. S&P 425 Industrials



*Average of high and low market values for the year, divided by book value of equity on December 31.

Source: Standard and Poor

began its sustained decline only in the early 1970s. The measure of systematic risk for steel equities (the beta coefficient) has remained close to unity for some time, however, indicating that investors do not anticipate a further deterioration in steel's relative position.

III. Application of the Price Standard to the Steel Industry

Data are available for 21 steel companies (those with at least $250 million in sales) for the first nine months of the program year (1978:III to 1979:II). Twelve firms, including seven of the eight major integrated producers, reported they were in compliance with the price deceleration standard over this period. One of the majors and seven smaller firms reported compliance with the profit-margin limitation. Of the 21, only Northwestern Steel and Wire was placed on the list of noncomplying companies. Laclede Steel, a firm with sales of less than $250 million, was also placed on the noncompliance list. Both Northwestern and Laclede were granted profit-margin exceptions for uncontrollable costs but were denied further adjustments.

Between September 1978 and June 1979, the Producer Price Index for blast-furnace and steel-mill products (SIC 3312) increased 6.3 percent. During the same period, the seven major integrated producers operating under the price deceleration standard increased their prices by 6.1 percent on average. The one major firm that was granted a profit-margin exception reported price increases

barely above the 6.1-percent average. It would thus appear that the smaller producers of steel, a large number of whom were granted profit-margin exceptions, increased prices in line with those of the majors.

Many of these producers increased prices by less than the allowable limit during the first nine months of the program year. This does not appear to be as true for companies specializing almost exclusively in steel production, suggesting that nonsteel prices may explain some of discrepancy. Supply and demand conditions in the various lines of steel production, combined with different product mixes for different producers, may also be involved. In other words, market conditions may have allowed relatively large price increases for hot-rolled sheet steel but not for steel plates. If a given producer's operations were concentrated in steel plates at the outset of the period, its overall price increases would tend to be limited given the low short-run elasticity of substitution in production.

Nevertheless, it is expected that end-of-year reports will show that most of these firms exhausted their permissible price increases. This expectation presumes that the price standard rather than market conditions was the effective constraint on steel-price increases. The rise in capacity-utilization rates from about 88 percent in the base quarter to 94 percent by the third quarter of the program year offers strong evidence of tightening steel markets.

Profit margins declined for most of the major companies during the first nine months of the program year. Except for one firm, however, these declines were not sufficient to make the companies eligible for the profit-margin exception since industry profit margins were low between 1975 and 1977. During this period, consumption and prices fell and the share of imports in the U.S. market rose. Steel-industry profit margins (CWPS definition) show substantial declines in 1976 and 1977, but the data do not conclusively indicate that the base period is highly unrepresentative:

Steel Industry Profit Margins:

Year	Percent
1969	6.8
1970	3.9
1971	4.5
1972	5.8
1973	7.5
1974	11.1
1975	6.3
1976	4.6
1977	2.1
1978	5.0

The greater incidence of profit-margin exceptions among the smaller steel producers can be explained by their greater reliance on electric furnaces that use scrap steel in production. During slack periods, scrap prices fall noticeably, enabling the electric-furnace mills to compete better with larger U.S. producers and importers. On the other hand, in boom periods (like the last year) rising scrap prices severely squeeze profit margins.

IV. Upcoming Negotiations

Agreements between the United Steelworkers of America (USWA)

(AFL-CIO) and the ten major steel companies expire on August 1, 1980, but the parties' Experimental Negotiating Agreement calls for the submission of all unresolved issues to arbitration by April 20. Basic steel talks are scheduled to begin on February 5, although negotiations on local issues will start in January.

The steel negotiations cover some 400,000 employees in the steel industry. Contracts negotiated in the steel industry serve as a pattern for agreements in the aluminum, nonferrous, and container industries. Contracts involving USWA employees and the major aluminum companies expire in May 1980, while copper-industry agreements terminate in June 1980. Forty-month agreements in the container industry expire in February 1981. Table 3 lists the major companies in the steel, nonferrous, and aluminum industries, the number of employees covered, and contract expiration dates.

Bargaining in the steel industry is more centralized than in most U.S. industries. The agreements between the union and the ten Coordinating Committee Steel Companies (CCSC) cover practically all USWA bargaining units in those companies. More importantly, under the Experimental Negotiating Agreement (ENA), which provides that no national strikes can be called, workers are guaranteed a $150 bonus, a 3-percent annual wage increase, and continued cost-of-living adjustments. (Individual plant strikes may be called over defined local issues that are unresolved by the July 31 deadline, but only after secret ballot by the USWA locals involved and authorization by the Union's International President.)

Table 3

Contract Expiration Dates of the Steel, Aluminum, and Nonferrous Industries Under Collective Bargaining Contracts with the United Steelworkers of America and the Aluminum Workers of America

10 Major Steel producers who are Party to ENA	No. of Employees Covered
Jones & Laughlin Steel Corp.	19,850
Republic Steel	28,000
Bethlehem Steel	50,000
U.S. Steel	90,000
Inland Steel	18,700
Lykes Youngstown Corp.	13,000
Armco	2,110
Allegheny Ludlum Indus.	5,899
National Steel	8,300
Wheeling Pittsburgh Steel	5,400

Contracts expire on August 1, 1980; however, the ENA provides that agreement is to be reached by April 20 or all outstanding issues are submitted to arbitration

Other Steel Companies	
Crucible Steel	8,000
Sharon Steel	3,400
CF&I Steel Corp.	7,000
Weirton Steel	10,000
Lukens Steel	2,600
Latrobe Steel	1,200
Granite City Steel	3,800
Northwestern Steel	3,800

Nonferrous Industry

Mining Operations

Anaconda Co.	7,000
Kennecott Copper	10,000
Phelps Dodge Corp.	4,300

Expire June 30

Table 3 (continued)

Mining Operations (continued)

Iron Ore Mining	16,000
White Pine Copper	2,000
Climax Molybdenum	2,100
Magna Copper	4,500
Anaconda Mining	1,500

Expire July 1

Manufacturing operations

Asarco Inc.	3,900
Phelps Dodge	1,500
Kennecott	1,900

Expire June 30
others expire July and August

Aluminum companies

Aluminum Co. of America	20,300
Kaiser Aluminum	(2 agreements 10,000 USA & AWU)
Reynolds Metals	14,000 two agreements USA & AWU

Contracts expire May 31, 1980

The ENA was instituted in 1973 and was adhered to in the 1974 and 1977 negotiations. Its guarantee of 3-percent annual wage increases (plus bonuses), together with escalators that have covered two-thirds to three-quarters of the increases in the cost of living, is clearly inflationary in the context of productivity growth of 1.5 to 2 percent per year. Moreover, the ENA establishes a floor for each labor settlement in return for the no-strike pledge that management and organized labor believed necessary to smooth the production cycle and ward off rising steel imports. (Both 1974 and 1977 were also particularly bad times to suffer strikes: markets were booming and in 1974 the industry was just emerging from a period of price controls; three years later it was just recovering from a recession and an insurgent group within the USWA, led by Edward Sadlowski, was challenging I.W. Abel's successor, Lloyd McBride, with opposition to the ENA as a principal issue.)

On November 8 and 9, 1979, the 160 members of the union's wage policy committee adopted a program that is expected to serve as a statement of the union's bargaining objectives. The union will seek "substantial" wage increases, adjustments of wage scales to account for the compression of rates between classifications, and improvements in existing cost-of-living clauses (COLAs). The major pension goal, considered a top priority by a majority of the committee members, will be COLAs for pension benefits. Other benefit goals include "full and liberalized" early retirement

regardless of age, increased pension supplements, improved benefits and reduced eligibility requirements for workers whose life expectancy is threatened by environmental conditions, and special early retirement for workers who lose their jobs because of plant closings. The union also seeks a four-day work week, additional holidays, and improvements in extended vacation plans, which currently provide steelworkers with up to 13 weeks of vacation every five years. Further, the USWA would liberalize job and income security plans through improvements in supplemental unemployment, sickness, and accident benefits. The union urges improvements in life insurance, increased coverage for spouses and dependents, major medical revisions, and wide use of health-maintenance organizations.

On other issues, the USWA seeks restrictions on contracting out of bargaining-unit work and wants employers to agree to neutrality toward organizing efforts at new locations.

Based on BLS average hourly earnings data for SIC code 331, the aggregate group of workers that most closely resembles those workers covered by the major steel agreement, average hourly rates increased by 23 percent from $8.44 per hour in July 1977 to $10.44 per hour in July 1979. These data cover the first two years of the last three-year agreement. In addition to the large wage increases, the 1977 agreement emphasized assurances of greater employment and income security for senior workers and improved

pension and health benefits, all areas of continued interest to the USWA. Although productivity growth was relatively rapid during this period that encompasses the recovery of 1978, averaging about 3 percent between 1975 and 1978 (the most recent three-year period for which data are available) compared to less than 2 percent over the entire preceding decade, the inflationary impact of the contract is readily apparent.

Prospects for the 1980 agreement would not appear to be very bright in the absence of significant constraint by the pay and price standard. The inflationary thrust of the ENA, deriving from the unwillingness of the steel companies to risk strikes in the wake of growing import pressure, particularly during periods of recovery, has already been noted. These elements form the background for the current negotiations as well.

Appendix. CWPS Reports and Regulatory Filings Affecting the Steel Industry

Direct Reports

July 1975	A Study of Steel Prices - Staff Report 1975
February 1977	Outlook for 1977 - Collective Bargaining Report includes Steel
June 11, 1976----CWPS 162	A Report on Steel Price Increases
October 1977	Report to the President on Prices and Costs in the U.S. Steel Industry
December 1976	Catalog of Federal Regulations Affecting Iron and Steel Industry
April 27, 1976---CWPS 144	The Discussion at the Steel Symposium - December 16, 1975
Dec. 2, 1976-----CWPS 216	Steel Price Increase - CWPS Preliminary Staff Report
June 1, 1977-----CWPS 245	CWPS Analyzes Steel Settlement

Indirect Reports

May 27, 1977	Auto Parts Price Behavior - 1971-1976
March 18, 1977	Trends in Industrial Plant Construction Costs
May 22, 1978-----CWPS 273	Inflation Update 1st Quarter of 1978
June 14, 1979----AIP 70	Price exception granted to U.S. Steel Corporation
July 24, 1979----AIP 80	Northwestern Steel and Wire Company and Mason Contractors - out of compliance
August 7, 1979---AIP 84	Laclede Steel Company - out of compliance
Sept. 21, 1979---AIP 96	Pay exception granted to Jones and Laughlin Steel Corporation and Youngstown Sheet and Tube Company

CWPS Filings Affecting the Steel Industry

3/21/75	CWPS 33	Noise Std. (OSHA)
6/24/75	CWPS 55	Eads Statement on Noise Std. (OSHA)
9/5/75	CWPS 78	Car Imports (U.S. Int. Trade Commission)
5/11/76	CWPS 149	OSHA - Coke oven emissions
6/24/76	CWPS 165	EPA Water Pollution Stds. for Steel Industry
9/17/76	CWPS 187	OSHA - Reducing Occupational Noise Exposure
1/18/77	CWPS 228	Study of Government Regulations on Steel Industry
3/7/77	CWPS 233	EPA Air Emissions Trade Off
4/1/77	CWPS 238	OSHA's Proposed Sulfur Dioxide Standard
10/25/78	CWPS 296	Cancer Policy (OSHA)
11/28/78	CWPS 299	Strip Mining (DOI)
11/16/79	CWPS 302	NSPS Steam Electric (EPA)
3/1/79	CWPS 309	Ohio Coal (EPA)
3/13/79	CWPS 311	Coal Conversion (DOE)
3/19/79	CWPS 312	Hazardous Wastes (EPA)
3/26/79	CWPS 315	"Bubble" Concept (EPA)
5/22/79	CWPS 319	Steel Carrier Tariff (ICC)
5/18/79	CWPS 320	Coal Management Program (DOI)
6/5/79	CWPS 321	Carbon Steel Plate from Poland (ITC)
6/14/79	CWPS 325	Water Quality Criteria (EPA)
8/30/79	CWPS 332	Economic Incentives Report
9/6/79	CWPS 335	Incremental Pricing (FERC)
10/22/79	CWPS 344	Ohio Water Quality (EPA)
10/31/79	CWPS 347	Coal Conversion (DOE)

Mr. ATKINSON. We have one final witness, Kenneth Fasick, Director, International Division, General Accounting Office.

Mr. Fasick.

STATEMENT OF KENNETH FASICK, DIRECTOR, INTERNATIONAL DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY DAYNA SHAW, OFFICE OF GENERAL COUNSEL; AND MARGARET TRUVER, INTERNATIONAL DIVISION

Mr. FASICK. Mr. Chairman, I have two associates with me. On my left is Ms. Dayna Shaw, who is from the Office of General Counsel, and on my right is Ms. Margaret Truver, who worked on this particular GAO study which is the subject of today's hearings.

Mr. ATKINSON. You are welcome.

Mr. FASICK. We are particularly pleased that the committee chose to use our March 15 report on antidumping for the purposes of this hearing and ensuing hearings.

With your permission, I would like to submit our statement for the record and make a very brief statement.

Mr. ATKINSON. Without objection.

[See p. 85.]

Mr. FASICK. As you know, our report did deal with problems and issues in administering the antidumping legislation which is contained in the 1921 act and the Trade Act of 1974.

I would like to make it clear that dumping is traditionally viewed as the export of goods at prices lower than those the exporter charges to home market buyers. Injury to the importing country's industry caused by such sales is remedied by the assessment of a special dumping duty to equalize price differences between the home country and the export market.

Dumping can be inadvertent or the result of rational business decisions to introduce a new product, test a new market, or reduce surplus or outdated inventories. It can be motivated by predatory intentions of eliminating competition to gain monopoly control. The practice can also be fostered by government policies aimed at maintaining employment levels, obtaining the foreign exchange needed to finance internal development, or helping to alleviate chronic balance of payments deficits.

The basic philosophy and purpose underlying the Antidumping Act is not protectionism designed to reduce or stop U.S. imports, but rather to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of U.S. industry.

I think that is very important because I did sense throughout some of the discussion this morning a different understanding of import controls versus the basic purposes of antidumping legislation.

Mr. ATKINSON. You see, we go to the agencies that have responsibility and we find out in 15 years there was $1.3 million of duties assessed with no record of collection, on 11 different items from steel bars, steel jacks, stainless steel plates, and so on.

The first one involves Canada, then Australia, France, Sweden and, of course, Japan. Going back to 1964, $80,100 is owed on fines or assessments. No record of being collected from Canada. Steel jacks from Canada, $181,000—no record of collection. France,

$2,959, no record of collection; plates from Sweden, $216,000, no record of collection.

One of the larger ones, roller chain from Japan, $512,000. It goes on and on.

The point is, the point you are making, laws are fine if they are enforced. If not, and if there is an obvious pattern of nonenforcement, if I am an importer, I am going to act accordingly.

Mr. FASICK. Indeed. As a matter of fact, our message had two points to it.

One, we don't think it is being enforced, and our other message is that it is a very difficult law to implement.

To be very brief, I think that the Trade Agreement Act of 1979 did an awful lot to overcome many of the legislative and some of the administrative problems that we saw with respect to implementing the law.

We think that given time and appropriate implementation by Commerce, the International Trade Commission, Customs and all those involved, there will be some marked improvement in the implementation of the law.

Mr. WILLIAMS. It will work.

Mr. FASICK. It will work if they put the appropriate resources and competent people into it. This is really the key to it.

Mr. WILLIAMS. May I ask one question? I have to leave.

Has the GAO estimated the loss of steelworker jobs and jobs related to the steel industry as a result of foreign dumping of steel on the market? Did you do anything in your report?

Mr. FASICK. No. I would be suspect of anybody who came up and gave you a figure and suggested it had some validity because we don't have the information or the tools. That is one of our criticisms, the lack of empirical data collected by our government agencies so they can make learned analyses.

Mr. WILLIAMS. I am concerned and I think that is a good point. We need to establish effective mechanisms to get the information we need to see exactly what the impact is going to be; whether it be Chrysler or steel or the textile industry.

Mr. Chairman, I hope that we can make that clear in the record, that maybe we ought to look at something to establish this mechanism to assist the GAO and others in getting the appropriate data so we can deal with the problems legislatively, such as we have with Chrysler.

Mr. FASICK. I would just like to add that I think the legislation the Congress now has provided the executive branch is the leverage they need to do a good job. What remains to be seen is if they can appropriately put in the right kinds of the positions in the right numbers to implement it.

Mr. CONYERS. May I ask a question about the incidence of dumping? Has it become a greater problem?

Mr. FASICK. The extent of dumping is very difficult to measure. Our laws are designed to be reactive. It is a reactive type of system. I don't think anybody knows how much dumping is taking place. That is the point I think one of you were making earlier. A lot of things can be happening which we don't know about because we don't have appropriate monitoring or policing of the system. Indeed, antidumping is sort of a psychological thing.

If you have enough cases where people are penalized for doing it, it is going to reduce it substantially.

Mr. CONYERS. What I think I hear you saying is that it is an unmeasurable problem and it may be becoming more aggravated.

Mr. FASICK. It is an unmeasurable problem and it could be becoming more aggravated although I think there are some encouraging signs because most of the industrialized world today is together in agreeing that dumping is an unacceptable practice and they have international agreements on it now, through the GATT.

Mr. CONYERS. Are there other nations that are being hit as badly as we are by the dumping practice?

Mr. FASICK. From what we can tell from our studies, no. Some countries are virtually free of any indications of it, but others are beginning to get traces of it. I think Germany, for example, is becoming more of a target than possibly it was in the past.

Mr. CONYERS. Finally, what would be your reaction if a number of Federal legislators decided that maybe we need to consider an entirely new mechanism? I am hoping new improvements will help things but suppose we went back and redesigned the wheel on this whole question? Sometimes just modifying a 50-year-old law—you can only put so many patches on the inner tube—won't do the trick. Have there been fresh views of this problem? Are there those with expertise saying, we really ought to look at it from a completely new view that has some validity?

Mr. FASICK. You know, to give credit to the Congress, I think the action they took in the Trade Agreement Act, and the amendments of the Tariff Act of 1930, represented precisely this type of an action; that they did take a fresh look, they made substantial changes, they got it to be an agreement with international norms or requirements, and what remains to be seen now is whether Commerce, International Trade Commission, indeed Customs in Treasury, will now put the proper emphasis on implementation.

If that is done, the intent of the antidumping legislation as it has been revised should be met, and meet not only our national commitments but international commitments we have in this area.

Mr. CONYERS. Thank you.

Mr. ATKINSON. Along this line, we are talking about fresh approaches and we are coming into one in January with the trade law changes; is there any reason why the Treasury wrote the regulations and Commerce is expected to administer them?

Mr. FASICK. In the past?

Mr. ATKINSON. The laws we are speaking about now. Commerce's responsibility is for the administering of it, that is going to take place January 1. Yet Treasury wrote all the regulations.

Mr. FASICK. Ms. Truver has some familiarity with this.

Ms. TRUVER. As we understand it from a little bit of work we did after being requested to testify, there is a joint task force, Treasury, Commerce, Customs within the Department of Treasury, who are trying to outline the regulations for implementing the new Trade Agreements Act.

As we understand it right now, that has not been completed.

Mr. ATKINSON. It has not been?

Ms. TRUVER. No. At least we have not been able to obtain anything to take a look at the implementing regulations.

Mr. ATKINSON. Do you know of any instances where Treasury officials talked to company officials to have them drop antidumping petitions?

Mr. FASICK. I am not familiar with any.

Ms. TRUVER. I think the most obvious case was when the trigger price mechanism went into effect. I think there was some sort of agreement between the Treasury and steel companies that they would withdraw their antidumping petitions to wait and see how effective the TPM was going to be.

Mr. ATKINSON. What right does anybody in this country have to be able to say that you do not have to pay that dumping duty? This is a lien or assessment that violated the law of the land and it is a law or statute that says, if you dump, you have to pay us a fine or assessment.

Administratively, that is someone's responsibility to collect. Now who has the right to say to a steel company or an importer, we are going to waive this, in order to get a nice healthy atmosphere to pass a multilateral trade agreement? Who has the right to give up what could be millions, maybe billions of dollars of American money?

Ms. TRUVER. Perhaps I did not make myself understood.

I was referring to petitions submitted to the Treasury, not cases where actual findings have been made. So there was no question of not collecting the duties or assessing duties.

Mr. ATKINSON. I am saying that a commodity is brought into this country under the production cost and therefore violates the dumping law. Because of that, there is a lien, assessment, or fine once it is classified and goes through the whole process. Finally, there is a dollar figure that is owed to the U.S. Government.

In these cases, that money should go into the general revenue of the country. Somewhere along the line maybe some official said, "Well, if you back off this, then we will create a better atmosphere and get the multilateral trade agreements through."

I think obviously that is what happened to specialty steel. We tried to get an extension of the quotas. I think everyone was just trying to play "big brother" to the world. In order to create this atmosphere, we got the short end of it, in other words.

My point is, and what I really want to try to ascertain in the course of these investigations and hearings, is whether anybody took it upon themselves, or any administration, anybody, anywhere, saw fit to waive the rights of the American taxpayer to this general revenue by creating maybe a warm situation with some foreign country. Or—and I do not want to use the word "blackmail," pressure, this sort of thing—but did any official say to American industry, you were hurt and injured by this, but that is passe, and now we have a new method to use starting January 1?

Do you have anything at all in your investigative procedures where this could have happened?

Mr. FASICK. No specific cases to our knowledge.

A possible explanation may be as follows. Once a determination is made that there is a margin between overseas prices and the prices they sell at in our market, once they make a decision that injury has been done to an industry, then they come up with a tentative figure of total duties or penalties. But the assessment of

those penalties must be based upon each individual import and the price in the home market at the time that import was made, so that it very well could be that the estimated penalties at the time the initial decision is made would be substantially different than the actual penalties paid because of this provision in the law.

Mr. ATKINSON. I know with formal entries that come in, there are bonds posted, 6 years recovery in those instances.

Mr. FASICK. Yes, sir.

Mr. ATKINSON. That procedure is pretty well set. I give Customs great credit for the job they do in that regard. This goes beyond that. Maybe it is an unfair question to ask of you.

Mr. FASICK. It would be beyond our scope.

Mr. ATKINSON. We are going to be hearing from the Treasury and Commerce in February. I thought it opportune to mention it now and we will pursue it later.

Mr. FASICK. Very well.

Mr. ATKINSON. Because of the bells and the fact we are going to have to leave, and when we get over there we do not know how long we are going to stay, rather than take your time, if you can summarize.

Mr. FASICK. I have in effect summarized.

Our report was basically an identification of a number of problems, I think the Trade Agreement Act of 1979 addressed many of them. Yet we have strong reservations about the ability of Commerce and the other agencies to properly implement.

Mr. ATKINSON. Have there been any recommendations you have made that have not been properly addressed?

Mr. FASICK. We have several such recommendations. One concerns one of the sections of the act which provides for determining the cost, the home market cost or cost of production, by adding an arbitrary 10 or 8 percent. We thought this may have been unfair in determining the less-than-fair valuation and suggested that they eliminate it and get actual costs. Neither the executive branch, the International Trade Commission, or Treasury agreed with us. Indeed, the Congress has continued to include this in the new law. That is one example. It is an area we suggest the Congress keep its eye on in the future.

Another was the amount of detail that went into this 205 (b) and (c) of the law, which provided for—Ms. Truver might explain that.

Ms. TRUVER. 205(b) is the section dealing with cost of production, and 205(c) is the provisions pertaining to centrally planned economies.

In the course of our investigation, we sort of came up with the idea that Customs was having to do an extensive amount of work to make determinations in those cases which required a great deal of time and effort on their part, and we felt that, given the kind of time that was consumed during those investigations, that problems occurring under specific sections would perhaps be better handled under other alternative sections of U.S. legislation, trade legislation dealing with trade practices.

Mr. ATKINSON. If there are any other recommendations that you cannot address here, would you make them for the record; the recommendations that you have made that have not been addressed?

Mr. FASICK. They are, sir, part of our formal statement which was submitted for the record.

Mr. ATKINSON. Again I thank you for spending the morning with us and the time you gave us. If we have any further questions, any of our members, may we write to you, make some other contact?

Mr. FASICK. Very good, sir.

Mr. ATKINSON. In the meantime, we will go over the submissions you have made. Again, if there are any questions by the committee, we will get back to you.

The hearing stands adjourned subject to the call of the Chair.

[Mr. Fasick's prepared statement follows:]

United States General Accounting Office
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Thursday, December 20, 1979

Statement of

J. K. Fasick

Director, International Division

before the

Subcommittee on Commerce, Consumer, and Monetary Affairs,

House Committee on Government Operations

on

The Antidumping Act of 1921

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to summarize our March 15, 1979, report on "U.S. Administration of the Antidumping Act of 1921" (ID-79-15). The report dealt with problems and issues in administering the Act under amended provisions contained in the Trade Act of 1974. A number of recommendations were made to improve legislative provisions and their timely administration by the Department of the Treasury and the United States International Trade Commission.

The Trade Agreements Act of 1979, which will become effective on January 1, 1980, repeals the Antidumping Act of 1921, and the new Antidumping provisions will be included in Title 7 of the Tariff Act of 1930 (Sections 731-778). These provisions make changes in most of the areas where

we identified problems regarding antidumping legislation and its implementation. If the new provisions are properly implemented by the Department of Commerce and the International Trade Commission, the intended improvements we envisioned in the effectiveness and administration of the antidumping legislation should be accomplished.

We are aware, Mr. Chairman, that these hearings are focused on the U.S. steel industry. It was due to the seriousness of the problems faced by the steel industry, that the Treasury implemented the steel trigger price mechanism in early 1978. This mechanism was the first systematic effort by the Treasury to monitor imports and, where indicated, to self-initiate antidumping investigations. It essentially eliminates, for the steel industry, the requirement to file a petition alleging that imported merchandise is being dumped in the U.S. market. Although our report does not deal with the specifics of the trigger price mechanism or its effectiveness, the report's message is relevant to the U.S. steel industry because that industry faces the same administrative and investigative procedures as does any other industry upon formal initiation of an antidumping investigation.

While we will be happy to respond to any questions you may have on other matters contained in the report, we would like to concentrate this morning on recommendations in the areas of

--reducing the time for investigating whether goods have been sold at less than fair value;

--developing information on the impact of antidumping legislation and its effectiveness in protecting U.S. producers from unfairly priced imports;

--reducing delays in assessing dumping duties; and

--improving administrative practices.

TIME REQUIRED TO MAKE AN INVESTIGATION AND ASSESS DUMPING DUTIES

A critical problem associated with antidumping legislation was the time required to conduct investigations and to determine and assess the proper amount of dumping duties. Under the Trade Act of 1974, the Treasury had 30 days to consider whether a petition warranted an antidumping investigation and was allowed 6 months (9 months when cases were complicated) to make a tentative determination of whether sales of imports had been made at less than fair value (LTFV), i.e., at prices lower than those at which the same or similar goods were being sold in the exporter's home market or to third countries. An additional 3 months was allowed for the Treasury to reach a final determination. Then, if the Treasury's final determination was affirmative, the case was referred to the International Trade Commission, which had 3 months to investigate

whether a domestic industry had been or was likely to be injured by reason of such sales. If the Commission found that an industry had been or was likely to be injured, a finding of dumping was issued, but no time limits were legislatively imposed for the determination and assessment of dumping duties. Consequently, the U.S. Customs Service, which also plays a major role in antidumping investigations, was 3 to 3-1/2 years behind in assessing duties at the time of our review.

Recommendations reduce less than fair value investigative timeframes

To help reduce the overall timeframe for making antidumping investigations, we recommended that petitions be filed with the International Trade Commission at the same time they are filed with the Treasury so that the Commission could make a preliminary determination within 60 days of whether there was a reasonable indication of injury.

We intended this procedure to eliminate most of the 3-month period following the Treasury's final determination that imports had been sold at less than fair value before a final determination could be made. It was also intended to provide for a more indepth consideration by the Commission of whether there is a reasonable indication of injury than is allowed for special referral under current provisions. Under these provisions the Treasury

may refer a case to the International Trade Commission for a 30-day injury inquiry when there is substantial doubt as to the existence of injury.

Since the Commission claimed that dumping margins; i.e, the difference between the home market value and the export market price, were needed to establish the causal link between less than fair value imports and injury, our recommendation allowed the Commission to hold final determinations in abeyance no later than 30 days following receipt of dumping margin estimates from the Treasury.

Section 732 of the new legislation which amends the Tariff Act of 1930, effectively responds to our recommendation in that a copy of the petition is required to be filed with the International Trade Commission on the same day that it is filed with the administering authority. Also, Section 733 allows the Commission 45 days to make a preliminary determination on the injury question. If the determination is negative, the antidumping investigation is to be terminated.

To help reduce the time required to determine and assess antidumping duties, we recommended that the Secretary of the Treasury establish time limits of 15 to 18 months following a final determination of dumping; however, we recognized that flexibility might be needed

to deal with special commercial practices in some countries. Section 736 of the amended Tariff Act provides that the administering authority publish an antidumping order within 6 days after receipt of an affirmative determination of injury from the International Trade Commission. The order is to direct Customs officers to assess antidumping duties within 6 months after the administering authority receives satisfactory information on which to base an assessment, but in no case is time to exceed

--12 months after the end of the manufacturer's or exporter's annual accounting period within which the merchandise is entered or withdrawn from the warehouse for consumption, or

--in the case of merchandise not sold prior to being imported into the United States, 12 months after the end of the manufacturer's or exporters annual accounting period within which merchandise is sold in the United States to a person other than the exporter.

These provisions effectively respond to our recommendations.

Recommendations for reducing delays in duty assessment

To help reduce the time required to begin the assessment and collection of duties, we recommended that the Treasury implement procedures it had under consideration for collecting estimated duties on inport entries after findings of

dumping had been established. We also suggested the Treasury use the best information available when encountering slow responses in providing information needed for determining the amounts of duty. The new legislation in section 736(a)(3) requires the deposit of estimated antidumping duties after a final affirmative finding of dumping has been made. For not more than 90 days after publication of the antidumping order, however, the administering authority may permit the posting of a bond or other security in lieu of the deposit of estimated antidumping duties. To do this, a number of specific conditions have to be met--essentially these identify the goods and the conditions under which they qualify for this waiver treatment.

These changes should satisfy the intent of our recommendations.

Recommendation to delete Section 205(b) and (c) from the legislation

Because of the length of time required and the additional problems encountered in conducting LTFV investigations under Section 205(b) of the Antidumping Act of 1921, dealing with the cost of production determinations, and 205(c) of the same Act, dealing with alleged LTFV sales from centrally-planned economy countries, GAO recommended that these sections be deleted from the legislation and the problems be dealt with under other appropriate legislative provisions.

The Treasury, although recognizing the complexities and time-consuming nature of such determinations, disagreed with our recommendation relating to Section 205(b). The Treasury stated that these provisions preserved relative comparative advantages and prevented foreign industries from "exporting unemployment." In Treasury's view, these provisions were, therefore, important elements of the antidumping legislation. Similarly, the Treasury also opposed deletion of Section 205(c) on the grounds that the only alternatives for preventing LTFV sales from state-controlled economies would be the use of quantitative restrictions and/or minimum import price agreements.

CAG recognizes and supports the contentions outlined by the Treasury that U.S. industry must have some avenue open to protect itself from persistent below-cost sales and sales from state-controlled economies where prices are not related to traditional market value concepts. We also recognize that these contentions have gained greater acceptance within the GATT and have been incorporated into the antidumping statutes of other trading nations; e.g., the EEC, Canada, Australia. Our recommendations to the Congress, however, were directed toward removing provisions that were extremely difficult to implement and significantly impeded the timely administration of the Act. Sections 205(b) and 205(c) of the Antidumping Act have been reenacted as Sections 773(b) of the Tariff Act of 1930.

We believe that one final point is noteworthy. Recent amendments to the Antidumping legislation, as outlined in the Trade Agreements Act of 1979, shorten timeframes to LTFV investigations. Given this shortened timeframe, it would seem that the administrative problems surrounding Sections 205(b) and (c) may be exacerbated, although an assessment of this potentially will not be possible for some time.

DEVELOPING INFORMATION ON THE ACT'S EFFECTIVENESS

Industry's general dissatisfaction with the effectiveness of antidumping legislation and its administration in protecting U.S. producers were largely based on general perceptions and theory and were not based on in-depth studies or analyses.

To provide some empirical evidence of what actually occurs during various phases of antidumping investigations and some insights on the effects of the Act and its administration, we recommended that the International Trade Commission

--establish a coding system for specifically identifying and monitoring imported merchandise subject to dumping and/or other trade legislation investigations, and

--make price studies of merchandise subject to antidumping investigations, monitor such merchandise, and determine the effect of antidumping actions on U.S. industry and labor.

We have been advised that the Commission has taken no actions to implement these recommendations at this time. We understand that some attention was being given to determining the procedures needed for adequately identifying imported merchandise; although the need to develop implementing procedures for the new legislation suspended this effort.

The Treasury expressed support of this recommendation in responding to the Chairman of the Committee on Government Operations on our report's recommendations and stated its hope for obtaining a monitoring system of its own that would also track imports in which antidumping proceedings have been initiated.

We have also recommended that the Treasury begin reporting annually to the Congress on the results of its actions to enforce the legislation. We envisioned that this would include specific information on the

--amount of antidumping duties collected and not refunded;

--average length of time required for an investigation;

--number of cases considered and the disposition;

--extent and monitoring of price assurances; and

--problems in administering the Act.

The Treasury had no objection to this recommendation, but pointed out that information on administration of the Antidumping Act was included in annual reports to the Congress by the Office of the Special Representative for Trade Negotiations. These reports do contain some information but not all that we had requested, particularly with regard to the amount of antidumping duties collected and extent and monitoring of price assurances. However, implementation of the new legislation is likely to improve data availability on these points, since it prescribes the collection and reporting of such data.

IMPROVING ADMINISTRATIVE PRACTICES

Recommendation to amend section 206(a) of the legislation

We recommended that Congress amend section 206(a) of the Antidumping Act(now Section 772(c) of the Tariff Act), which requires that 10 and 8 percent minimums for general expenses and profits, respectively, be placed on calculations of sales at LTFV when Treasury uses a constructed value

formula for such calculations. We suggested that, rather than applying these arbitrary minimum percentages, the Treasury calculate general expenses and profits on the actual experience and past performance of the industry in question. Our recommendation stemmed from our conclusion that these minimum percentages would not always reflect the actual cost and profit experience of the industry in question. Additionally, in our view, because constructed value calculations of LTFV sales by definition require a cost of production analysis, substantial additional time would not be required to determine the general expense and profit experience of the industry in question. We believe that the use of general expense and profit figures determined in this fashion can unduly inflate fair market values used in LTFV determinations.

The Treasury Department disagreed with our position, stating that the law required such minimum percentages in order to avoid sanctioning "an unrealistic continuation of a total absence of profits." The Treasury further stated that, since the 8-percent profit figure is a pre-tax calculation on the sum of the fabrication and general expenses of an industry, the effective after tax-profit figure is closer to 3 to 4 percent.

We continue to believe that rather than arbitrary minimum percentages, the Treasury should calculate general

expenses and profits on the actual experience and past performance of the industry in question. In those obvious instances where an unrealistic continuation of a total absence of profits exists, the presence of some form of subsidy is indicated, and problems of this nature could be handled under the countervailing duty sections of the Tariff Act of 1930.

The injury determination

Our report noted several problems with both the legislation and ITC's administration of the Act with reference to injury determinations. The Antidumping Act does not clearly define the terms "injury" and "industry," does not quantify the amount of "injury" to the industry sufficient to authorize relief, and does not clarify the degree of causal link between LTFV sales and injury claimed "by reason of" such sales. Moreover, we noted that ITC's administration of the injury determination was not consistent in defining what constituted an industry in any given case and what factors were most important in determining that an industry had been injured by reason of LTFV imports. With regard to ITC's public hearing on the question of injury to an industry, we noted that both parties, because of the lack of clarity discussed above, cannot adequately prepare statements or documentation for their cases.

We recommended that ITC clarify certain sections of the legislation and ITC's administrative procedures by

issuing a general policy statement and procedural guidelines for conducting injury determinations. We anticipated that such rules would include an outline of

1. the step-by-step procedures used by ITC in reaching determinations, and
2. the types of information considered in such determinations.

Moreoever, we recommended that ITC prepare a nonconfidential summary of information developed during the preliminary stages of investigations to allow interested parties to prepare for the oral hearing conducted during the investigation.

ITC's response of May 11, 1979, to the House Committee on Government Operations indicates that ITC was not supportive of our recommendation to clarify or define the terms "injury" or "industry" because the Antidumping Act "directed the Commission to exercise informed judgment on a case-by-case basis." Furthermore, ITC pointed out that, as we had stated in our report, "the Congress has refrained from providing legislative guidance for defining key factors and has chosen to provide maximum latitude and flexibility for the Commission to decide these questions according to the facts of each individual case." Finally, the Commission argued that any actions on its part to define key factors in an injury determination should be held in abeyance because the Multilateral Trade Negotiations (MTN) implementing legislation was likely to

include indicative criteria appropriate for a general policy statement.

As indicated by the Commission, the Trade Agreements Act of 1979 does address the issues of concern in our report. Sections 733(a) and 735(b) of the Tariff Act state that a standard of "material" injury will be used, and Section 771(7) provides factors to be considered by the Commission in determining whether material injury exists. This section outlines the economic factors which should be addressed in assessing the impact of allegedly dumped imports on the affected industry. The legislation also defines the factors to be considered in determining the impact of alleged LTFV sales. Moreover, section 771(4) clarifies the definition of industry and the criteria to be used by the Commission in defining industry on a regional or national basis for purposes of an injury determination. The legislation defines the term "like product." In addition, sections 777(a) and (b) provide that during the course of an investigation, nonconfidential submissions may be disclosed by the Commission to interested parties, and confidential information may be made available under protective order. Mr. Chairman, we believe that the Trade Agreements Act of 1979 clarifies issues of concern noted in our report and will facilitate and improve the consistency of ITC determinations of injury.

Uniform bonding requirements

We recommended that the Secretary of the Treasury have the Commissioner of Customs require that bonding requirements imposed at the time of a tentative determination, be uniformly applied by each district director. In its comments on our report to the Government Operations Committee, the Treasury disagreed with our recommendation, stating that such requirements are predicated on the importer's ability to pay potential dumping duties. Additionally, since district directors' authority to deal independently with importers extends to all areas of trade, the Treasury believes that it would be inconsistent to implement such a revision only in the case of dumping. Moreover, the Treasury stated that it is unaware of any instance when dumping duties have not been paid because of inadequate bonding.

In providing the suspension of liquidation of entries when a preliminary finding of dumping is made, under the Trade Agreement Act of 1979, the administering authority may require, in lieu of the imposition of estimated duties, the imposition of a bond or other security to ensure collection of estimated duties. This has been left to the discretion of each individual Customs district director. Although the issue of uniform bonding requirements is not specifically addressed, we assume

that the imposition of such requirements and the amounts of the bonds will also be left to the discretion of district directors.

Since our recommendation, as stated by the Treasury, focuses only on antidumping bonding procedures, the entire issue of Customs district bonding practices may warrant additional study.

In conclusion, Mr. Chairman, the changes made to the legislation and its administration represent actions responsive to our recommendations. We would be pleased to address any questions you or members of the Subcommittee may have.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

U. S. ADMINISTRATION OF THE ANTIDUMPING ACT OF 1921

D I G E S T

The Antidumping Act of 1921, as amended, is costly, time-consuming and extremely burdensome to administer, primarily because its provisions are complex and some are imprecise. The act, as amended, provides for assessment of a special duty against importers to discourage dumping.

Dumping is the practice of exporting goods at unfair prices; i.e., those construed to be lower than prices charged to buyers of the same or similar goods in the exporters' home market (and, since passage of the Trade Act of 1974, at prices below production costs). Although access to dumped goods may benefit consumers and dampen inflationary trends, it may cause the affected domestic industry to lose sales and possibly reduce production and employment.

The Act is administered by the

--Department of the Treasury and United States Customs Service, which determine whether imported goods have been sold at less than fair value, and

--International Trade Commission, which determines whether an industry is being or is likely to be injured or is prevented from being established by reasons of such sales.

If the Commission finds in the affirmative, Treasury assesses and collects dumping duties.

The long periods of time required to conduct investigations, and delays averaging 3 to 3-1/2 years in assessing duties after findings of dumping, make it

Tear Sheet. Upon removal, the report cover date should be noted hereon.

highly improbable that U.S. industry is being adequately protected by the Act.

The extent of protection is difficult to specify because there is no empirical evidence of what occurs concerning prices and/or quantities of merchandise imported during the various phases of antidumping investigations. Under Section 332(a) of the Tariff Act of 1930, the International Trade Commission has the authority to develop this evidence and to study the effects of the Act, but has never done so. (See ch. 2.)

COMPLAINTS ABOUT THE ACT

U.S. industry complains of the difficulty of obtaining information about foreign market values, the 6 to 9 months required for Treasury to make tentative determinations of dumping, and delays in assessing duties and has begun to seek relief from price discrimination through other legislation. Also some foreign producers have been investigated under the Antidumping Act as well as other statutes within a very short time. This has led them to complain of being harassed and placed in "double" or "triple" jeopardy. (See ch. 6.)

Moreover, members of the General Agreement on Tariffs and Trade complain that the United States is the only member whose antidumping law specifically overrides the Antidumping Code negotiated in 1967. Other major criticisms include failure to

--require a sufficient degree of injury to industry,

--consider the extent to which less than fair value sales are the cause of the injury,

--provide for conducting dumping and injury investigations simultaneously,

--seek an early, practical solution to dumping, rather than encouraging full-scale dumping investigations to run their course. (See ch. 5.)

DIFFICULTIES IN ADMINISTERING THE ACT

Timely and effective administration of the Act are seriously hampered because of difficulties in:

--Making price adjustments where merchandise sold in the home market is different in style, quality, or other features from that exported.

--Meeting cost-of-production requirements for establishing foreign market values.

--Establishing foreign market values on imports from state controlled or centrally planned economy countries.

--Assessing duties on entry-by-entry comparisons with foreign market sales value at the time of purchase or export. (See pp. 22 to 37.)

--Distinguishing injurious effects of less than fair value imports from other low-priced imports.

--The lack of a generalized policy statement encompassing administrative procedures and standards for defining industry, injury, or the extent of the causal linkage that must exist between less than fair values sales and injury. (See ch. 4.)

GAO believes that Treasury bonding procedures to ensure recovery of dumping duties and insufficient interaction between Customs case handlers in Washington and agents abroad

do not facilitate efficient and equitable adminstration of the Act. (See pp. 31 to 33 and 37 to 39.)

RECOMMENDATIONS TO THE INTERNATIONAL TRADE COMMISSION

The International Trade Commission should

--establish a coding system for specifically identifying and monitoring imported merchandise subject to dumping and/or other trade legislation investigations and

--under authority of Section 332(a) of the 1930 Tariff Act, make wholesale price studies of merchandise subject to antidumping investigations, monitor such merchandise, and determine the effect of antidumping actions on industries and labor.

The collection of such data and adequate studies would provide more specific insights into problems of enforcing the Act and would help decisionmakers in developing a more responsive and effective Act. (See pp. 14 and 15.)

To help alleviate much of the concern expressed by U.S. and foreign producers and by members of the General Agreement Tariffs and Trade and to provide a more consistent basis for making injury determinations, the International Trade Commission should develop and adopt some generalized procedural rules and administrative guidelines for conducting injury investigations. Such rules and guidelines should provide for publication of the step-by-step procedures that are followed in reaching injury determinations, together with the types of information that are considered in those decisions. They should also provide for issuance, prior to the public hearing, of a non-confidential summary of information developed during the preliminary stage of the investigation so that

parties to an action will be more aware of what issues to address at the time of the public hearing. (See pp. 45 and 53.)

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

To meet the need for better information and more comprehensive analysis of the effects of antidumping legislation, the Secretary should, as proposed in Senate Bill 2317, begin reporting annually to the Congress the results of the Treasury's actions to enforce the Antidumping Act. The reports, in addition to those topics covered in the bill, should include information on the extent and monitoring of price assurances obtained and statements of problems in administering the Act. (See p. 15.)

For more effective protection against unfairly priced imports, delays caused by preparation and issuance of master lists for duty assessments need to be reduced. Treasury is considering adopting procedures to collect estimated duties on import entries after findings of dumping have been established. It also plans to enforce existing procedures requiring that the best information available be used to determine duties when respondents fail to provide adequate information promptly.

The Secretary should expedite these measures and also modify Custom's procedures to require determinations and assessment of final dumping duties within 15 to 18 months after findings of dumping. Alternate times might be required for certain countries where refunds affecting price are made at the end of the accounting cycle.

A more uniform and standardized system of setting bonds to insure payment of dumping duties is necessary to prevent unfair and unequal imposition of requirements. The Secretary should instruct the Commissioner of Customs that bonding requirements should be uniformly applied by each Customs District Director. (See p. 40.)